J&T banka d.d.

Annual report for the year 2022

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Contents

Introduction

The annual report comprises a summary of operation and key financial indicators, a description of operation and the audited financial statements for the year ended 31 December 2022 together with the Independent Auditor's Report.

Legal status

The Annual Report includes annual financial statements prepared in accordance with International financial reporting standards, and audited in accordance with International Standards on Auditing.

The Annual Report has been prepared in accordance with the Accounting Act and Companies Act which requires the Management Board of an entity to report to shareholders at their annual General Assembly.

Abbreviations

In the Annual Report, J&T banka d.d. is referred to as 'the Bank' or 'J&T', the Croatian National Bank as 'CNB', the Republic of Croatia as 'the Government' and the Croatian Bank for Reconstruction and Development as 'CBRD'. Other abbreviations may be used in report are:

F/Ss - financial statements

SFP - statement of financial position

SPL - statement of profit and loss

OCI - other comprehensive income

CC – currency clause

GDP – gross domestic product

IAS – International accounting standards

IFRS - International Financial Reporting Standards

In this report, the abbreviations "HRK thousand", "HRK million" or "EUR thousand" and "EUR million" represent thousands and millions of Croatian kunas and euros.

Exchange rates

The following CNB middle exchange rates were used for translation of foreign currencies into Croatian kuna:

31 December 2022	1 EUR = 7,534500 HRK	1 USD = 7,064035 HRK
31 December 2021	1 EUR = 7,517174 HRK	1 USD = 6,643548 HRK

Macroeconomic environment and banking sector in the Republic of Croatia in 2022

Changes in global environment

After almost returning to its pre-pandemic growth trajectory, the world economy slowed sharply after the start of Russia's invasion of Ukraine. In the months that followed, the negative effects of the war spilled over into the global economy through a pronounced rise in the prices of energy and other raw materials, mostly on European countries, where these effects were additionally reinforced by the great uncertainty regarding the supply of energy from the Russian market.

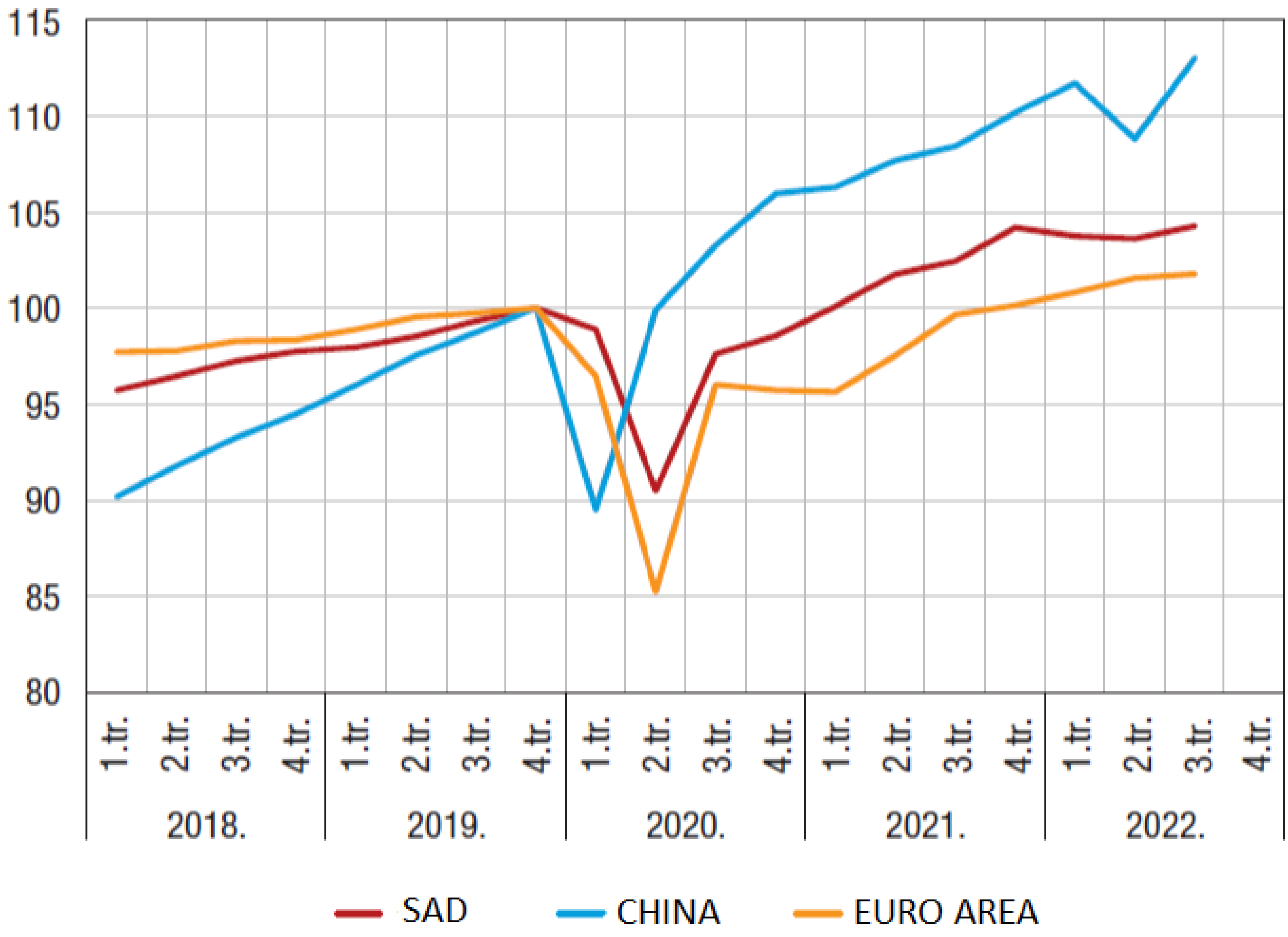
On the other hand, difficulties in global supply chains continued to decrease, despite occasional closures of trade and production zones in China due to the application of highly restrictive epidemiological policies. In such circumstances, the Chinese economy recorded a pronounced contraction in the second quarter, but recovered already in the third quarter. In other countries, most of the epidemiological measures have been lifted in the meantime, which stimulated the acceleration of the recovery of the service sector and thus contributed to better-than-expected achievements in the second and third quarters. Along with the increasingly pronounced spillover of the prices of energy and other raw materials on final goods and services, the strong growth of consumer price inflation continued, which in many countries reached levels not recorded for several decades. This then encouraged the tightening of monetary policies and, along with a reduced appetite for risk, led to a noticeable deterioration in global financing conditions. With the strengthening of inflationary pressures from the beginning of 2022, the process of reducing monetary incentives introduced during the pandemic intensified, i.e. the tightening of monetary policy accelerated. Movements on the world foreign exchange market during most of 2022 mainly reflected expectations related to a faster normalization of monetary policy in the US compared to other major economies, but also geopolitical uncertainty and high energy prices.

After a slight contraction in the first half of 2022, the US economy returned to an upward trajectory in the third quarter. However, the quarterly growth rate of 0.6% in the third quarter can largely be attributed to a strong contraction in imports of goods and services which, along with continued growth in exports, made the largest contribution to GDP growth. On the other hand, the investment activity of the private sector continued to weaken in conditions of increased uncertainty and increasingly unfavorable financing conditions. The growth of personal consumption also slowed under the influence of high inflation, whereby consumption focused on durable goods continued to fall, while consumption in the service segment recovered sharply after the almost complete lifting of epidemiological measures. At the same time, the labor market remained extremely strong, with the unemployment rate decreasing. Government spending also made a very slight positive contribution to economic growth in the third quarter, although most of the support measures introduced during the pandemic were gradually phased out.

Despite increased uncertainty, especially regarding the supply of energy products, and increasingly pronounced price pressures, economic activity in the euro area continued to grow in the third quarter, albeit at a very modest rate of 0.2%. On the one hand, the abolition of most epidemiological measures since the beginning of the year contributed to the recovery of the service sector, which was especially felt in the tourist industry during the summer months. At the same time, the manufacturing sector was operating under increasing pressure from high energy costs and still present difficulties in supply chains, especially with regard to gas supply. Due to structural differences among individual member countries, uneven dynamics of economic activity have been recorded in the past few quarters. Thus, countries with a large share of services in GDP, such as Italy, Spain and the Netherlands, have achieved significantly better results than, for example, Germany, which has mostly stagnated or recorded insignificant growth since the beginning of the year.

Most of Croatia's most important foreign trade partners recorded a slowdown in economic growth in the first half of 2022. Among partners in the euro area, economic growth slowed down the most in countries with a strong manufacturing sector. As for foreign trade partners in Southeast Europe, economic trends were somewhat more favorable considering that these countries are less integrated and less sensitive to disruptions in global supply chains. Likewise, their direct exposure to the Russian and Ukrainian markets is relatively limited, which mitigates the negative effects of the war in Ukraine.

Graph 1: Economic growth of selected markets



Source: Eurostat; BEA; NBS

Changes in Croatia

Economic activity

Increased global geopolitical uncertainty accompanied by high prices of raw materials and energy products also affects the Croatian economy. Weaker prospects of global economic growth and accentuated inflationary pressures, which prompted central banks around the world to quickly and strongly tighten monetary policy and worsen financing conditions, increasingly began to affect the Croatian economy as well. Negative foreign shocks have so far more affected the manufacturing sector, which is more sensitive to high energy costs and more exposed to difficulties in global supply chains, while in the service sector these difficulties have been overcome thanks to strong demand after the lifting of most epidemiological measures. In such conditions, in the third quarter of 2022, the Croatian economy experienced a relatively mild contraction compared to the previous quarter, with a slowdown in the annual growth rate of real activity.

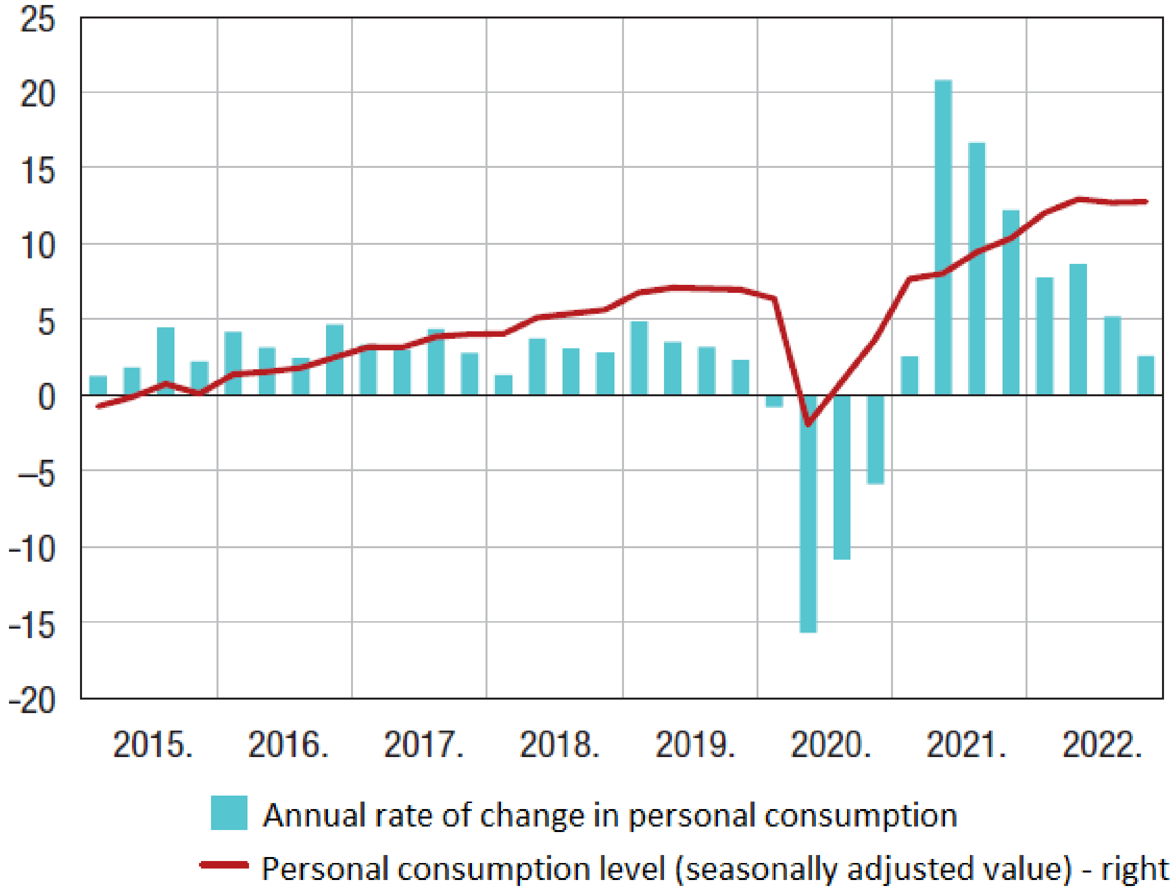
High-frequency indicators for Croatia point to stagnation of economic activity in the fourth quarter, after the decline recorded during the third quarter. According to the CNB's monthly indicator of real economic activity, the annual growth rate of real GDP in the last three months of last year decreased to 2.6%, which indicates that the level of economic activity has stagnated compared to the previous quarter.

The decline in industrial production accelerated at the end of last year due to the decline in energy production and non-durable consumer goods, and the growth in the production of capital goods mitigated the unfavorable dynamics. The decline in real turnover from retail trade continued, which can be linked to the continuation of the decline in real wages and weak consumer optimism, which, despite the recovery recorded at the end of the previous year, remains at the long-term average. In contrast, construction activity continued to strengthen, while data on fiscalized accounts point to favorable developments in the service sector. Considering this, economic activity is expected to return to the growth path only in the second half of next year.

The expected continuation of the tightening of the ECB's monetary policy will affect the further deterioration of the financing conditions of the domestic economy, but the harmonization of the CNB's monetary instruments in the process of accession to the euro area at the beginning of next year should alleviate the intensity of this deterioration. The annual growth of total corporate financing continued to intensify, mainly due to accelerated borrowing from domestic credit institutions, while the growth of placements to households remained stable, with the bulk of household credit activity still related to housing loans.

A prolonged period of geopolitical instability and its possible additional escalation could have negative effects on global, and especially European, economic activity, which would have a negative impact on the domestic economy as well.

Graph 2: Quarterly GDP



Source: DZS (seasonal adjustment of CNB); CNB calculation

Labor market

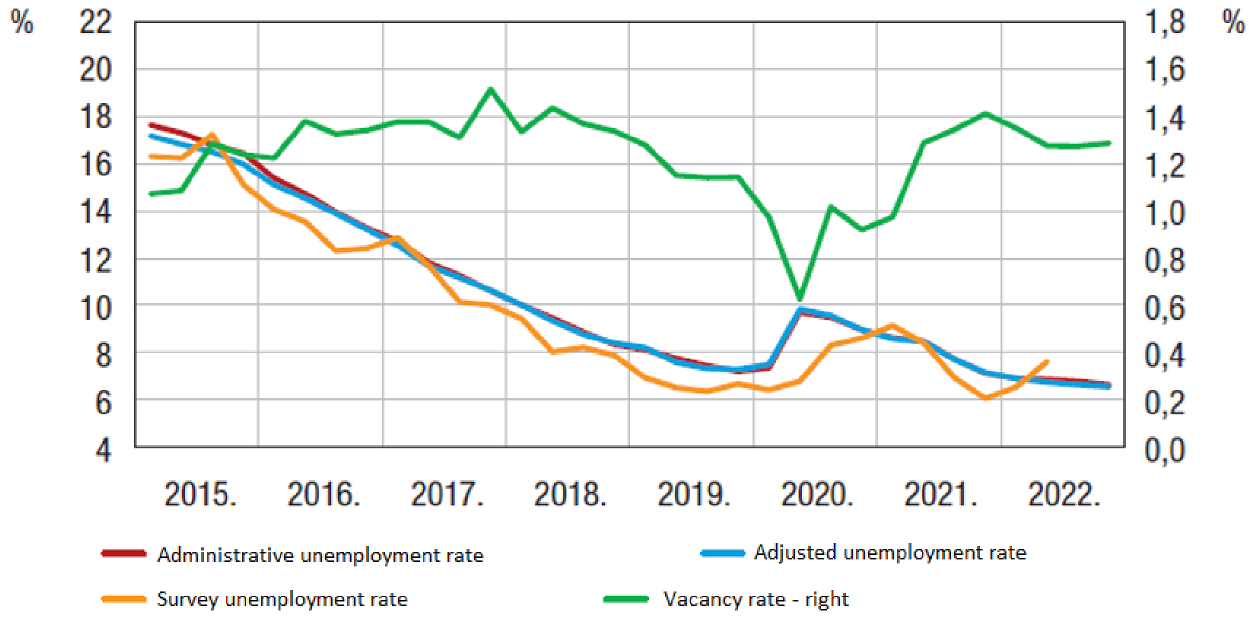
The labor market has so far proven to be resistant to recent unfavorable developments in the economy, although a very gradual weakening of favorable trends is visible.

The growth of real economic activity in the first half of 2022 was accompanied by favorable trends in the labor market. The total number of employees in the first and second quarters grew at a similar intensity as at the end of the previous year, by 0.6%. Thus, the average number of employees in the first half of the year was 1.3% higher than in the previous six months, or 2.6% higher than in the same period of the previous year. In the third quarter, total employment increased by 0.5% compared to the previous three months. Observed on an annual basis, the number of employees in the third quarter was 2.4% higher than in the same period of 2021. The strongest contribution to employment growth was made by employment in service activities and in the IT sector and business services activities. The employment of foreign nationals also made a positive contribution to overall employment growth. In addition, an additional positive contribution to employment growth was made by the employment of retired persons on a part-time basis.

In the first quarter of 2022, the quarterly growth of the nominal gross salary accelerated to 2.3%, from 1.7%, which was at the end of the previous year. In the third quarter of 2022, nominal gross wage growth slowed to 1.7% compared to the previous quarter. The acceleration of wage growth reflects the intensification of wage growth in the private sector, while at the same time wages in the public sector grew at a similar intensity as in the previous three months, i.e. significantly slower than in the rest of the economy. In the period from April to June 2022, the three-month growth of nominal gross wages accelerated further and amounted to 2.7%, with the growth of wages in the public sector accelerating and approaching the rest of the economy, where wages grew at a similar intensity as in the previous three months. However, due to the rise in the price level, in the first half of 2022, the decrease in real wages, which began in the second half of the previous year, continued. Data for October show that the decline in real wages continued in the fourth quarter of 2022.

The average nominal gross wage in 2022 could increase by 8.7%, with wage growth in the private sector possibly slightly higher than in the public sector. Thus, the influence of the strengthening of inflationary pressures on nominal wages in the environment of strong demand for workers and lack of qualified labor force, which strengthens the bargaining power of workers, is visible. When it comes to the public sector, it has been agreed so far that the salary bases of public and civil servants will increase by six percent from October 1, 2022 and two percent from April 1, 2023. Despite the relatively strong expected growth of the average nominal gross wage, its real value could decrease by 1.7% compared to 2021, due to the simultaneous stronger expected increase in consumer prices.

Graph 3: Unemployment rate



Source: DZS; HZZ; CNB calculation (seasonal adjustment)

Inflation

Consumer prices in Croatia rose by 13.1 percent in December, while inflation in the whole of 2022 amounted to 10.8 percent. The latest statistical data show that consumer price growth has slowed on an annual basis. Annual inflation rates have recorded record levels for several months in a row, and the last time was in November, when inflation was a record 13.5 percent. The prices of goods and services for personal consumption, measured by the consumer price index, fell on a monthly basis and were on average 0.3 percent lower in December compared to November.

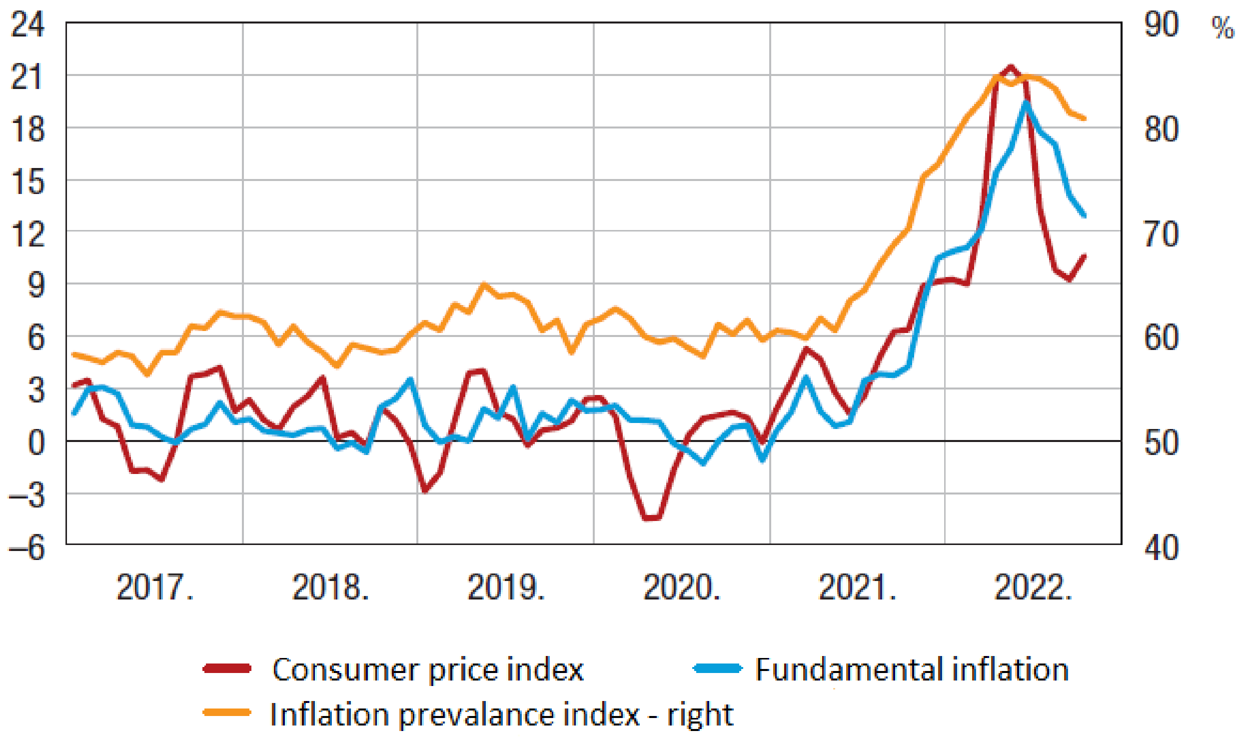
For the whole of 2022, the average inflation rate was 10.8 percent. Observed according to the main groups of the ECOICOP classification, all categories increased on an annual basis, and the largest increase in consumer prices on average was achieved in the group of food and non-alcoholic beverages, by 19 percent. With 17.1 percent, it is followed by the category of restaurants and hotels, then furniture, home equipment and regular household maintenance, which recorded a jump of 16.1 percent, followed by the category of housing, water, electricity, gas and other fuels, with a growth of 16 percent. The prices of clothing and footwear jumped by 12.1 percent, various goods and services by 11.5 percent, in the category of recreation and culture by 9.6 percent, transportation prices by 8.4 percent, and for example alcoholic beverages and tobacco by 5, 3 percent. The mildest growth was recorded in the category of communications, by 0.9 percent.

Statisticians point out that the increase in prices in the categories of food and non-alcoholic beverages (4.93 percentage points), housing, water, electricity, gas and other fuels (2.70 percentage points), transportation (1.24 percentage points), then in the category of furniture, home equipment and regular household maintenance (0.92 percentage points), restaurants and hotels (0.85 percentage points).

Observed according to special groups, the largest increase in prices on average at the annual level was achieved in the group of processed food products, by 18 percent, with a contribution to the increase of 4.06 percentage points. HIPC (consumer price index) inflation at the annual level is 12.7%. On an annual level, consumer prices, measured by the harmonized index of consumer prices, increased by 12.7 percent, while the annual average was higher by 10.7 percent.

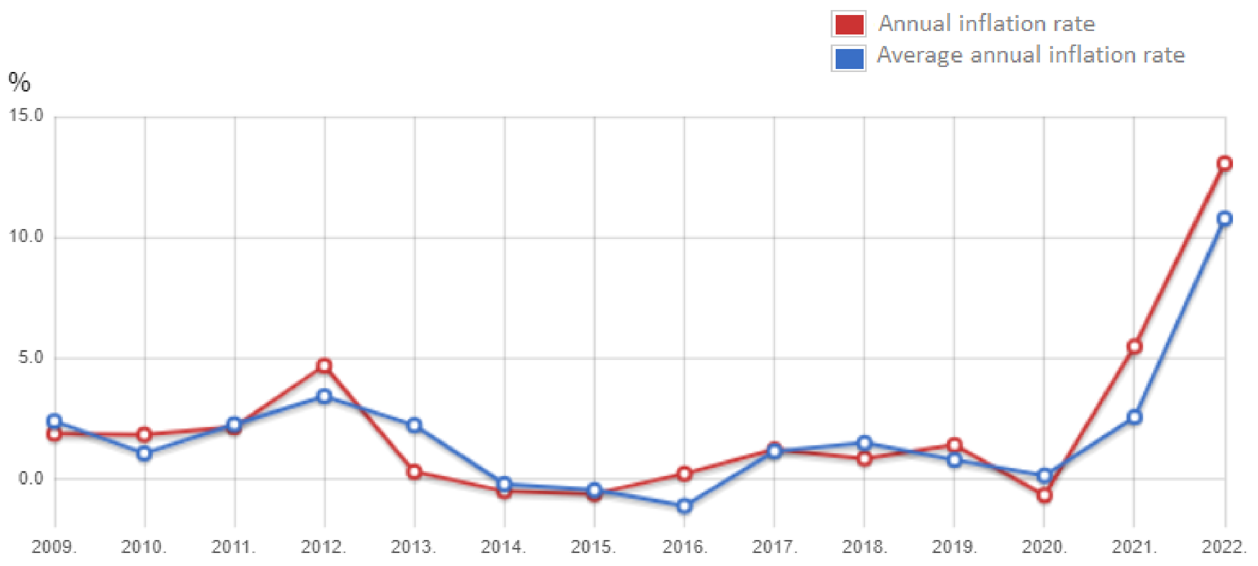
Inflation measured by the harmonized index of consumer prices in Croatia during 2022 is noticeably higher than in the euro area. Food prices contribute the most to this, followed by services and industrial products, while the contribution of energy prices is smaller in Croatia than in the euro area. Inflation divergence between Croatia and the euro area was probably contributed by, among other things, the pronounced growth in tourism demand by non-residents, stronger economic recovery, less competition on the domestic market, as well as differences in the structure of the consumer basket with a larger share of food and accommodation services. In 2023, the difference between inflation in Croatia and the euro area is expected to decrease.

Graph 4: Fluctuation indicators of inflation



Source: DZS; calculation CNB

Graph 5: Graph of annual and average annual inflation rates



Source: DZS

Personal consumption

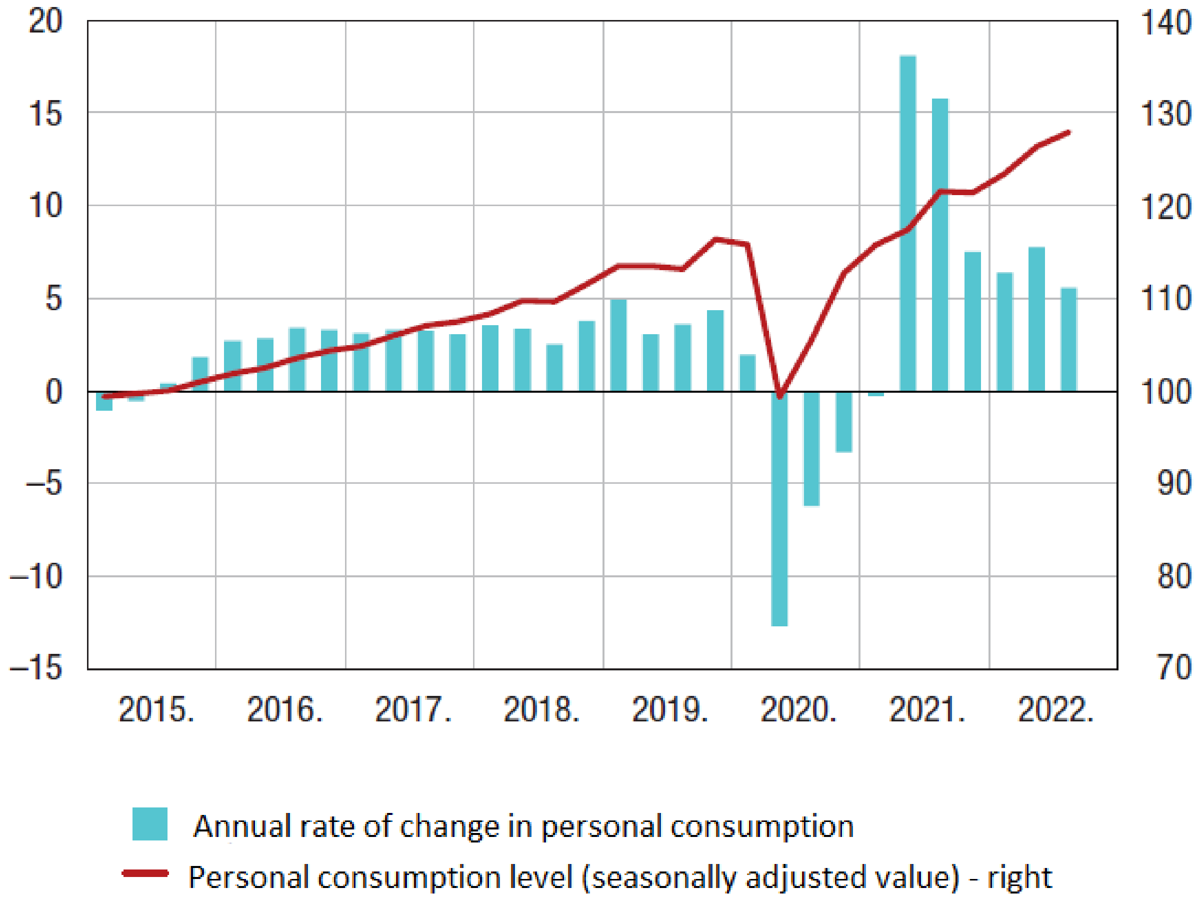
Personal consumption in the first half of 2022 remained at the level achieved in the period from July to December last year, and its annual growth slowed from 11.3% in the second half of 2021 to 7.1%. Personal consumption continued to grow exclusively in the services segment, where demand recovered sharply after the almost complete abolition of epidemiological measures.

While, on the one hand, the increase in employment and the decrease in unemployment had a positive effect on the growth of personal consumption, salaries, which, despite the growth in nominal terms, were reduced in real terms due to high inflation, had the opposite effect. In addition, the consumer confidence index was at extremely low levels, which may indicate a lower propensity of households to spend.

Personal consumption in the July-September period slowed to 1.2% quarterly growth, after 2.3% in the second quarter. As a result, an annual growth rate of 5.6% was achieved. Personal consumption is adversely affected by the movement of real incomes, which, despite high nominal growth, have decreased both quarterly and annually due to inflation. In addition, the deterioration of consumer optimism was also recorded in the third quarter, which can be linked to the expected continuation of price growth at relatively high rates. On the other hand, households reduced savings from the elevated level they were at during the pandemic in order to preserve consumption.

Government spending in the third quarter of 2022 was 3.6% lower compared to the previous quarter, after a quarterly growth of 0.8% in the previous three months. Growth in imports of goods and services accelerated sharply in the third quarter of 2022, to 8.4% quarter-on-quarter, from 1.8% in the previous three months. Strong import growth is a consequence of strengthening domestic demand, as well as growth in exports of goods and exports of services in the third quarter. Observed on an annual basis, the total import in the third quarter increased by 30.5%, with growth in both the import of goods (33.4%) and services (15.3%). The annual growth of total imports was slightly higher than the growth of total exports, but due to the high export of services in the third quarter, the contribution of net exports to total economic growth was positive (2.1 percentage points).

Graph 6: Personal consumption - real value



Source: DZS; CNB Bulletin

Terms of financing and banking sector

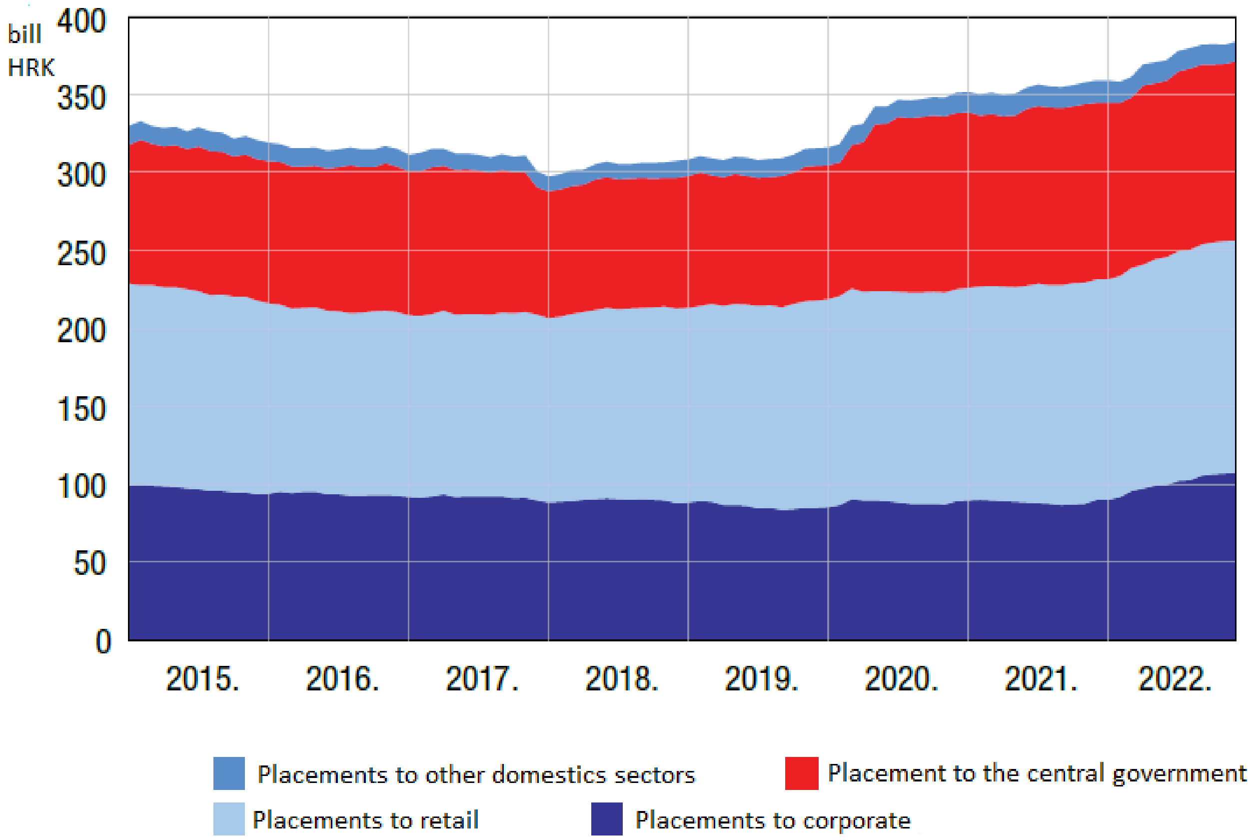
In the first three quarters of 2022, the total assets of credit institutions increased by 50.6 billion. HRK (10.1%) and amounted to 551.4 billion. kuna. An increase in total loans and advances by 9.0% and a decrease in non-performing loans (NPL) by 17.1% resulted in a further decrease in the share of NPLs in total loans, from 4.3% at the end of 2021 to 3.3% at the end September 2022, NPLs decreased both in the portfolio of loans to non-financial companies (a decrease in the share of NPLs was recorded from 9.9% to 6.5%), and in the portfolio of loans to households (a decrease in the share of NPLs from 6.6% to 5.5%).

The operations of credit institutions in the first three quarters of 2022 resulted in a profit in the amount of 5.0 billion. kuna. Return on assets (ROA) was 1.3%, which is a slight increase compared to the end of 2021 when ROA was 1.2%, and return on equity (ROE) increased from 8.8% to 10, 2%.

The key indicators of the capitalization of the banking system in the first three quarters of 2022 are at high levels. The rate of total capital of the banking system decreased compared to the end of 2021, from 25.9% to 24.0%.

All credit institutions had a total capital ratio higher than the prescribed minimum of 8%. At a high level, the liquidity of the system of credit institutions is still measured by the liquidity coverage ratio (LCR). At the end of September 2022, all credit institutions met the prescribed minimum liquidity requirements, and the average LCR was 198.8%.

Graph 7: Structure of credit institution placement



Source: CNB Bulletin

Monetary policy

The first half of 2022 was marked by growing inflationary pressures and expectations of faster and stronger tightening of monetary policies by a large number of central banks. The expected turn in monetary policies, supported by the first steps taken in this direction and announcements of future actions, stimulated a strong tightening of global financial conditions. In such circumstances, the exchange rate of the kuna against the euro remained stable, and the liquidity of the monetary system remained at a very high level. The growth of geopolitical tension due to Russian aggression against Ukraine resulted in certain pressures on the foreign exchange market, of relatively limited intensity since participation in the European exchange rate mechanism and the expected introduction of the euro further anchored market expectations. The rapid rehabilitation of Sberbank d.d., which faced a strong outflow of deposits caused by a damaged reputation, under the conditions of the introduction of sanctions against Russia, also contributed to the calming of market expectations.

The monetary environment in the second half of 2022 was characterized by geopolitical and economic uncertainty, and especially high and growing inflation, which encouraged central banks around the world to tighten monetary policy faster and more strongly. In such circumstances, financing conditions on the global financial markets continued to deteriorate. The spillover effect of unfavorable global financial conditions on financing costs in Croatia has been relatively limited so far, which can primarily be attributed to the imminent accession to the euro area, i.e. reduced risk perception and high kuna liquidity of banks, which was further increased by the harmonization of the monetary instruments of the CNB with the instruments of the Eurosystem.

Participation in the European exchange rate mechanism and the expected introduction of the euro further anchored market expectations. Therefore, after selling a total of EUR 385 million to commercial banks on three occasions in March, the CNB did not intervene in the foreign exchange market for the rest of the year. When it comes to other foreign exchange transactions, from the beginning of the year to the end of November, the

CNB bought a net amount of EUR 576.8 million from the Ministry of Finance. Of this, almost the entire amount was realized in November, when the CNB bought EUR 550 million. If the total foreign exchange transactions in the same period are observed, the CNB net bought EUR 191.8 million, which created a total of EUR 1.4 billion. kuna of primary money. When it comes to kuna operations, the CNB continued to hold regular weekly operations with a fixed interest rate of 0.05%. After March, in the rest of the year there was no interest from banks in the funds offered through this instrument of monetary policy. Structural operations also did not create additional kuna liquidity, so their balance at the end of November decreased to 2.8 billion due to early repayments. HRK, which is HRK 240 million less than at the end of the previous year. In addition, maturities of individual bonds from the CNB's portfolio reduced the total amount of subscribed bonds in the Republic of Croatia by 2.1 billion. kuna compared to the end of 2021.

During the second half of 2022, banks' free funds reached their highest level so far. Thus, the average daily surplus of kuna liquidity of the domestic banking system in November reached 84.8 billion. kuna.

In July 2022, the CNB passed the Decision on Amendments to the Decision on Required Reserves, which reduces the reserve requirement rate from 9% to 5% in August, and then to 1% in December. As a result, the kuna part of the reserve requirement decreased by 14.7 billion in August. kuna, which resulted in an increase in the surplus kuna liquidity of the domestic banking system.

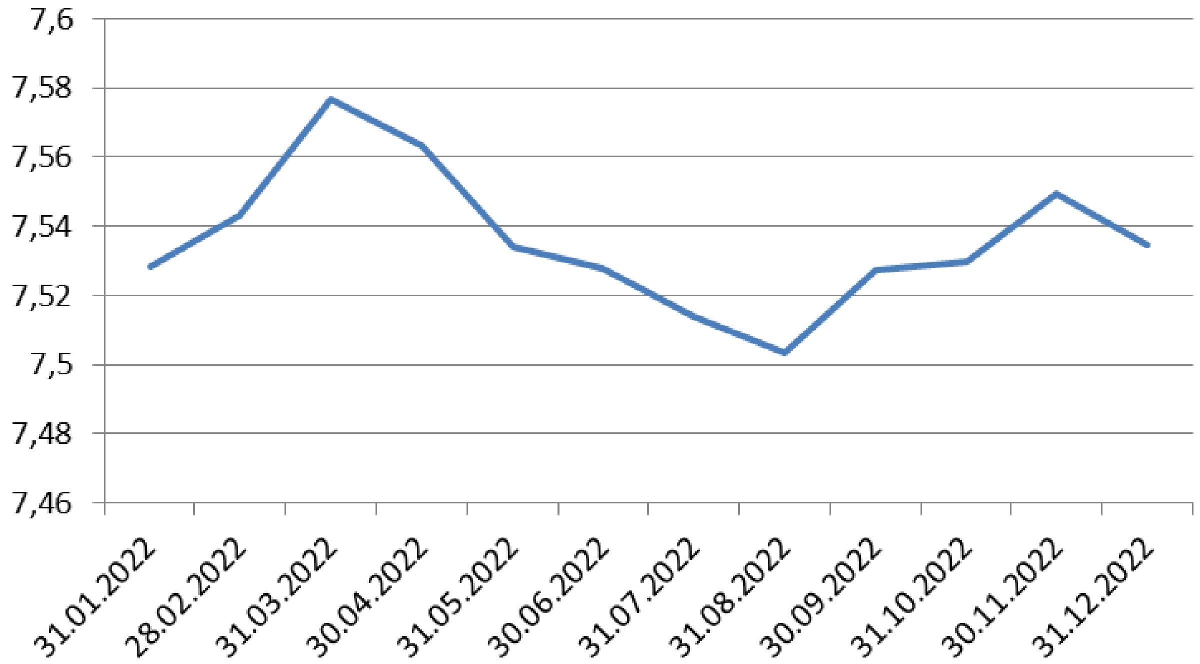
In July 2022, the CNB also adopted the Decision on Amendments and Supplements to the Decision on Minimum Necessary Foreign Currency Receivables, which introduces the gradual abolition of the maintenance measure for foreign currency liabilities with foreign currency receivables, with the minimum maintenance percentage being reduced from 17% to 8.5% from August. , and then in December, the measure is completely abolished.

The higher level of contracted repo contracts, the growth of the government's foreign currency deposits with the CNB and the purchase of foreign currency from the government resulted in the growth of the international reserves of the Republic of Croatia during 2022.

The exchange rate of the kuna against the euro was stable in the second half of 2022. Occasional appreciation pressures during the summer months were mostly influenced by a good tourist season and, consequently, a higher supply of foreign currency. These pressures were mitigated by the occasional corporate demand for foreign currency, particularly pronounced in the energy sector due to more expensive raw materials and energy sources. At the end of November 2022, the exchange rate of the kuna against the euro was 7.55 EUR/HRK, which is 0.4% higher than at the end of the same month in 2021, while the average exchange rate in the first eleven months of 2022 was 7.53 EUR /HRK or 0.1% more than the average exchange rate realized in the same period in 2021.

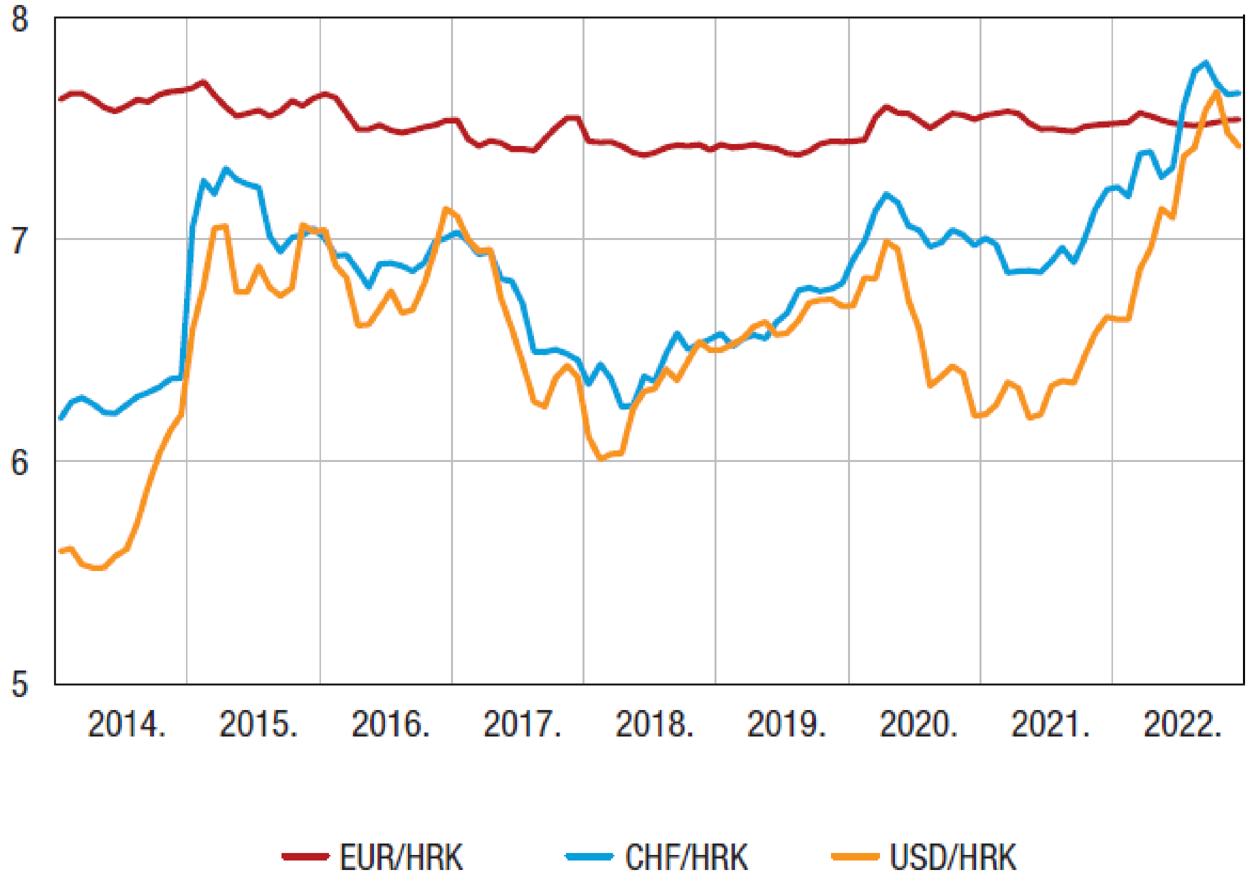
The exchange rate of the kuna against the US dollar and the Swiss franc at the end of November 2022 was higher than at the end of the same month in 2021, which reflects the weakening of the euro against these currencies in the world financial markets. The growth of monetary aggregates slowed down during 2022.

Graph 8: Average FX rate EUR/HRK in 2022



Source: CNB

Graph 9: Nominal exchange rates of HRK against selected currencies



Source: CNB Bulletin

Management report

J&T banka d.d. is registered as joint-stock company at the Commercial Court in Varaždin under registration number (MBS): 50000185, with its registered office in Varaždin, Međimurska ulica 28, for the performance of the following activities:

- accepting deposits or other repayable funds from people and approving credits from those funds, for own account;
- accepting deposits and other repayable funds;
- approval of loans and credits, including consumer credits and loans, and mortgage credits and loans, if it is allowed by a special law, and financing commercial activities, including export financing based on discount repurchase and without reimbursement of long-term unmatured claims ensured by financial instruments (forfeiting);
- purchase of receivables with or without recourse (factoring);
- finance lease;
- issuing guarantees and other warrants;
- trading for own account or for the client's account:
    - money market instruments,
    - transferable securities,
    - foreign currencies, including exchange transactions,
    - financial futures and options,
    - currency and interest rate instruments,
- payment services in line with special laws;
- services related to crediting, e.g. collection of data, conducting analyses and providing information on creditworthiness of legal and natural persons who conduct business activities on their own;
- issuing other payment instruments and managing them, in line with a special law, unless provision of these services is not considered provision of payment services in line with special laws;
- renting safe boxes;
- mediation in money market transactions;
- investments and other services and activities in accordance with separate laws regulating capital markets, as follows:
    - trading for own account.

As at 31 December 2022, the Bank operates through 2 branches (Varaždin, Zagreb).

The Bank performs most of its business activities in the territory of the Republic of Croatia while only a small part of its business is carried out with non-residents.

Total revenue for the Bank in 2022 amounted to HRK 27,466 thousand.

The Bank employs 52 full- time workers.

Loss in 2022 amounted to HRK 17,385 thousand. The Bank did not have any obligation to pay taxes on profits.

In 2022, the Bank did not receive public subsidies.

MISSION

Our individual approach to each client and our top quality and professional services, based on the competencies of our employees, creates added value for our clients. This contributes to the growth of our organization and the improvement of the quality of life of our community. We appreciate the personal contribution of all of our employees whose creativity and knowledge are our greatest values.

VISION

Our vision is to continuously exceed expectations and be the first to innovate and create new values. We want to be a leader in creating world-class financial solutions for our customers and be the best in providing growth and development opportunities to all our employees.

Financial performance

Bank operations in 2022 were marked by continuing business strategies and putting the focus on larger corporate clients. Total share capital amounts to 327,085,400.00 HRK and the ownership share of J&T Bank a.s. Prague increased at 98.2%.

In 2022 Bank generated HRK 17.9 million of interest income, while interest expenses amounted to HRK 3.7 million. Net interest income amounted to HRK 14.1 million, which is decrease compared to 2021 by HRK 8.7 million. Part of the reason for the mentioned decrease in interest income is the significant returns of individually larger placements as well as the absence of income from non-profitable placements caused by the war in Ukraine.

Portfolio of loans and advances to customers on 31 December 2022 and 31 December 2021 amounted to HRK 283.4 million and HRK 351.1 million, respectively.

Securities portfolio at 31 December 2022 amounted to HRK 118.0 million and was HRK 56.7 million lower than the end of the previous year.

Net fee and commission income in 2022 amounted to HRK 4.5 million (in 2021. HRK 2.7 million).

Administrative costs and depreciation amounted to HRK 12.8 million, HRK 1.7 million lower compared with the previous year as a result of the active management of the Banks expenses and suspension of the obligation to pay savings deposit insurance.

The bank records impairment and provisions in the net amount of HRK 15.4 million, while the previous year the released impairment and provisions amounted to a net amount of HRK 2.6 million. The realized loss of the current year after value adjustment amounts to HRK 17,385 million (the same period last year the realized profit was HRK 2,975 million).

The most significant share of the funding structure of the Bank comprise term deposits which amounted to HRK 311.5 million at 31 December 2022 and comprise 46,88% of total sources of funding, while the share capital and reserves of the Bank as at 31 December 2022 amounts to HRK 98.3 million and comprise 14,80% of total sources of funding.

As at 31 December 2022 the Bank's total assets amounted to HRK 664.5 million (HRK 812.9 million at 31 December 2021).

Impact of economic environment (war in Ukraine)

The invasion of Ukraine by the Russian Federation, and the consequent adoption of international sanctions against the Russian Federation and The Republic of Belarus, represent a significant new event that has affected the Bank's risk management, as well as general corporate governance in all related areas. Following the invasion and the adoption of international sanctions, the Bank conducted a detailed analysis of potential increased exposure to credit risk, market risks, liquidity risk, IT/cyber risks and risks related to the prevention of money laundering and terrorism financing.

Management is closely monitoring the situation and if necessary will undertake all available measures, in order to mitigate the potential adverse effects of any events or circumstances.

Retail sector

In 2022. Retail banking was performed through 2 branches on domestic market (Varaždin and Zagreb) and on German market through already terminated cooperation with Deposit Solutions(before: Savedo Gmbh). Activities in retail were focused primarly on deposit collection segment and, in less extent, on managing the remaining portfolio of consumer loans., i. In 2022. gross overdue receivables of retail credit placement compared to 2021. decreased by 80% (2022 HRK 0.3 mill; 2021 HRK 1.5 mill), while the cost of gross provisions decreased by 73% (2022 HRK -0.4 mill; 2021 HRK -1.6 mill).

Bank did not approve new consumer loans during 2022., which is the continuity of non-offering (providing) new consumer lending service since 2017. and earlier.

In line with the long lasting exit strategy in consumer lending and realized sale of performing loans end of 2021, the retail credit portfolio in 2022. was further decreased by HRK 2.5 million, or 45%.

Variable interest rates on existing retail loans has followed decrease of NRS (National Reference Rate - 6M NRS1) in 2022., all in-line with the Bank's Principles for Determining Variable Interest Rates on Retail Loans. Strategy for deposit segment was focusing on maintainance short term liquidity sources, continuity in exiting from long term sources and optimizing deposit structure and interest costs. During the 2022. deposits with floating interest rates had been increased twice following an increase of reference parameter – Indeks referentne kamatne stope na depozite ("IRKSD"). Average interest rate on citizens' deposits has been reduced by 0.11 pp for deposits in kuna, and increased by 0,06 pp for deposits in Euros, while the volume of deposits decreased by EUR 9,3 147.4 million or 20,18%., In previous years Bank made following decisions: (i) to stop contracting new long-term retail deposits and redirecting the focus of saving operations to short-term sources in this segmentand (ii) to stop automatic prolongations of existing long term deposits when they mature Regarding the term deposits portfolio collected through cooperation with Deposit Solutions, the average interest rate stayed the same (end of 2022 compared to end of 2021), while the volume of deposits was decreased by EUR 248 ths or 12,17% in 2022, Contract was terminated on 31.12.2020 with residual obligation to continue managing the existing portfolio until expiration of each particular deposit.

As of 31 January 2022. Bank terminated its card business and deactivated all Maestro debit cards. At the same time, Bank stopped providing following bank services: opening new current accounts, new internet banking service and E-savings accounts and while existing internet banking services were terminated as of 30 June 2022. ,. Also, starting from 1 January 2022, Bank had cancelled automatic renewals of all silent overdrafts on current accounts (existing at the time), which led to full repayment of all silent overdrafts in the portfolio during the 2022.

All above changes and terminations of products and services have been performed successfully in line with all relevant and applicable internal and regulatory procedures, regulations and guidelines including informing the clients/consumers and the Croatian national bank in timely and comprehensive manner.

Corporate sector

Despite the situation in the economy caused by the raising inflation and the war in Ukraine, the corporate banking portfolio is continuing to operate in a confident manner, and is showing positive business signs through its operations. The corporate banking portfolio achieved a gross decrease of 13,6% in regard to the previous year where the gross
decrease was 16,2%.
Also, continuous workout actions vs NPL loans shows further decrease in the NPL loans by. The vast majority of the NPL exposure concerns going concern clients that regularly repay their obligations.

Corporate	2019	2020	*Δ 20/19*	2021	*Δ 21/20*	2022	*Δ 22/21*
Gross	**372.839**	**439.802**	*18,0%*	**368.346**	*(16,2%)*	**318.133**	*(13,6%)*
A (PL)	274.882	361.243	*31,4%*	314.497	*(12,9%)*	235.987	*(25,0%)*
B (NPL)	91.409	68.801	*(24,7%)*	40.274	*(41,5%)*	68.571	*70,3%*
C (NPL)	6.548	9.758	*49,0%*	13.575	*39,1%*	13.575	*(0,0%)*

In the area of Anti-money laundering and terrorist financing, the corporate banking department is continuing to conduct in-depth analyses, monitor the transactions, and report all of the suspicious and disputable transactions to responsible persons, according to the valid procedures and legislation.

The corporate banking department is already preparing several new loans in different sector & industries, with the emphasis on the project finance / real estate and investment banking loans. The amount of the loans that are in the works is significant, and will contribute to the expansion of the corporate portfolio. As the majority of the loans are syndicated and highly complex the whole process of structuring such loans is quite demanding, and it requires a lot of time, as the analysis of those loans have to be quite thorough. The realization of these new loans in the making is expected in the second quarter of 2023.

As mentioned, the significant amount of loans are syndicated so the contribution to the revenue growth is expected through approvals of those syndicated loans. Additional smaller local loans, up to EUR 2.300.000,00, are structured without the syndication with the J&T group, and will continue to bring in additional interest revenues.

The growth strategy of the portfolio in the Corporate Banking Department continues the planned volume, and the first significant results are expected in the third quarter of 2023.

Treasury activities

Compared to the year 2021, which was still marked by the fight against the coronavirus pandemic, and the recovery after the earthquakes in Zagreb and Bania, the year 2022 was globally marked by the war in Ukraine. Consequently, the war had a great impact on the Croatian economy. Rising prices of raw materials on the market resulted in an increase in consumer prices and increased inflation, which in 2022 amounted to 10.8%. The announced transition of Croatia to the euro as its domestic currency also contributed to the rise in prices, and the first signals of a potential recession appeared. The country's GDP, again on the tracks of a good tourist season, recorded growth (approx. 5.4% after the third quarter), which is still less than 10%, recorded in 2021.

Although the liquidity of the domestic and banking system of the Eurozone remained at a high level, with the rise in inflation, the rise in interest rates also began. Thus, the 6-month EURIBOR rate rose from -0.546% at the beginning of the year to 2.693% on the last day of the year.

The CNB's 12-month National Reference Rate of the average cost of financing the banking sector (NRS) for kuna fell to 0.08% in the third quarter, while for euros it was 0.06%.

The securities market, after recovering a little in 2021, is experiencing a sharp decline after the start of the war in Ukraine. Trading volumes are low and yields are rising sharply. The yield on the longest domestic government bond with a currency clause in euros (2040), which was issued with a yield of 1.28%, ended the year at 4.101%, while the yield on the longest kuna bond (2032) rose from 0.628% at the beginning of the year to 3.771 % at the end of 2021

As for the EUR/HRK exchange rate, the kuna weakened against the EUR during 2022, the exchange rate ranged from 7.50-7.57, and the average exchange rate in 2023 was at the level of the one in 2021 - 7.53 .

Within the aforementioned macro framework, the Bank went through the year maintaining a high share of liquid assets in its balance sheet while at the same time reducing its liabilities, but given the rise in interest rates, there was slight increase of the average interest cost of its liabilities

In 2022, with a small trading volume, the bank realized a profit on securities in the amount of HRK 115 thousand, while in 2021 it amounted to HRK 493 thousand. Income from exchange rate differences in 2022 amounted to HRK 1.52 million, which is less than in 2021 when they amounted to HRK 2.37 million.

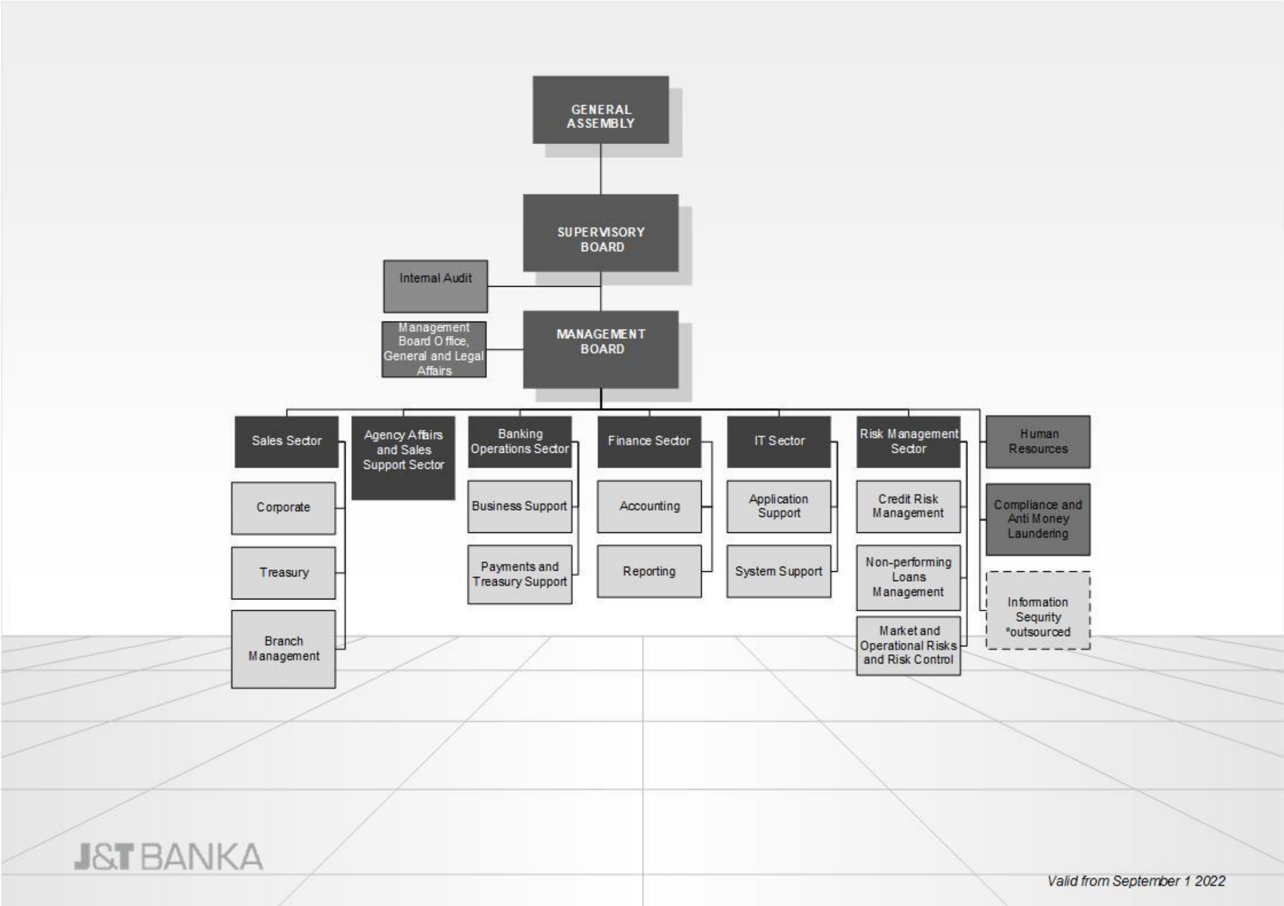
Employees and organizational structure

During 2022, Bank's business took place in Bank's headquarter in Varaždin, branches in Zagreb and Varaždin and office in Zagreb.

During 2022, the bank changed its organizational structure in a way that the former independent Market and Operational Risks and Risk Control Sector was abolished, and it was re-established as a department within the Risk Management Sector. The Agency Affairs and Sales Support Sector was also established, from of the previous Sales support, Product Development and Card Business department. During 2022, there was no major fluctuation of employees.

On December 31 2022 Bank had 52 employees.

Organizational scheme



IT development

OLBIS (Online Bank Information System) is an integral bank information system, which now consolidates all application modules of 'core' system, as well as full regulatory reporting.

During 2022 most activities regarding application development were focused on adaptation of OLBIS system for EUR and to fulfill legislative and regulatory demands and reports.

During 2022, several significant OLBIS changes were implemented:

- EURO conversion - data parameterization
- EURO conversion - modification of the program code
- EURO conversion - report adjustment
- EURO conversion - payment transaction EURO NKS
- EURO conversion - testing environment
- EURO conversion - 31.12.2022/01.01.2023

In the infrastructure segment, most engagement was related to the preparation and technical upgrades for migration to cloud. List of important tasks that have been done:

- Complete Symantec antivirus software upgrade, including Symantec Endpoint Protection and Symantec Email security cloud integration
- Implementing Signergy solution for Internet banking, adaptation of Internet banking for modern browsers to work without Java
- System support for introduction of EUR, implementing changes for different services, Task, Fina,…
- Complete upgrade of Swift workstations and support needed for the upgrade of different Swift services (ESMIG, Basic Tracker, Go Sign,..)

Parallel to before mentioned activities, continuous upgrading of system support and information security segment was carried out.

Internal controls system and control functions

The internal controls system is a set of processes and procedures set up to adequately control risks, monitor efficiency and performance of the Bank's operations, the reliability of its financial and other information, and compliance with regulations, internal acts, standards and codes in order to ensure the stability of the Bank's operations.

The internal controls system shall ensure effective and efficient operations; prudent conduct of business; adequate identification, measurement and mitigation of risks; the reliability of financial and non-financial information and reports; sound administrative and accounting procedures; and compliance with laws, regulations, supervisory requirements and the institution's internal policies, processes, rules and decisions.

In accordance with the Credit Institutions Act and the Decision on governance arrangements, the Bank established an internal controls system comprising the following:

1. appropriate organisational structure;
2. organisational culture;
3. adequate control activities and segregation of duties;
4. appropriate internal controls integrated into business processes and activities of the credit institution;
5. appropriate administrative and accounting procedures;
6. activities within the scope of the control functions of the credit institution.

The Bank prescribed and established adequate control activities and segregation of duties, adequate internal controls and appropriate administrative and accounting procedures carried out in course of the Bank's regular operations.

In accordance with provisions of laws and by-laws, the Bank established three control functions:

1. the risk control function;
2. the compliance monitoring function;
3. the internal audit function.

The risk control function ensures the Bank's compliance with risk management strategies and policies by performing risk analysis, monitoring risk, reporting risk-related information to the Management Board and other persons, and participating in the preparation, application and monitoring of the functionality of risk management methods and models. It also carries out the evaluation of the Bank's internal capital adequacy and controls the preparation of the Bank's recovery plan.

The compliance monitoring function ensures the compliance of the Bank's operations with relevant regulations, standards and codes and internal acts. The compliance monitoring function is responsible for: identifying and assessing the compliance risk to which the credit institution is or might be exposed; advising the management board and other responsible persons on the implementation of relevant laws, standards and rules, including informing them on developments in these areas; assessing the effects that changes in relevant regulations will have on the operation of a credit institution; verifying compliance of new products or new procedures with relevant regulations as well as amendments to such regulations in cooperation with the risk control function; reporting on compliance risk to the management board, the supervisory board and the relevant supervisory board committee, and other relevant persons; cooperating and exchanging information with the risk control function in relation to compliance risk and its management; and providing advice as regards the preparation of training programmes related to compliance.

The internal audit function, as part of the internal controls system, assesses the following: appropriateness of governance arrangements; adequacy of existing policies and of their compliance with regulations and other regulatory requirements and with the Risk appetite and Risk management strategy of the Bank; correctness and effectiveness of implementation of the procedures referred to in Article 24, paragraph (1) of this Decision and the compliance of these procedures with the applicable laws and regulations and with decisions of the Bank's Management board and the Supervisory board; adequacy, quality and effectiveness of the controls performed and the reporting done by the business units and the Risk control and Compliance functions; accuracy and reliability of the accounting records system and financial statements; outsourced activities; strategies and procedures in place to assess the adequacy of internal capital and internal liquidity; information system; reliability of the internal and external reporting systems and timeliness and accuracy of the reports prescribed in the Credit Institutions Act, regulations adopted under that Act and other regulations; methods of asset protection; data collection systems and the validity of information that is publicly disclosed in accordance with Title XIV of the Credit Institutions Act, Regulation (EU) No 575/2013, and other regulations; other assessments as prescribed by the Credit Institutions Act, regulations adopted under that Act, Regulation

(EU) No 575/2013, the relevant technical standards and other regulations; other activities necessary to achieve internal audit objectives.

Each control function prepares reports in line with their tasks and established operational work plans, in accordance with provisions of the Credit Institutions Act and regulations and decisions issued based thereon.

Financial reporting control system

The Bank has ensured the internal control systems of the accounting system and financial reporting, risk management system and the reliability of the information system covering all the major Bank's activities. In addition, the Bank hired an external auditor and has applied previous, current and subsequent financial supervision of the financial reporting and decision-making process.

The accounting system, based on the International Accounting Standards and the International Financial Reporting Standards prescribed by the Accounting Policies of the Bank, is regulated by the Accounting Rules that define rights, obligations and responsibilities of all the participants, including the obligation of ongoing monitoring, while the functioning of the other systems is governed by special standard regulations.

The Bank's internal control system includes efficient direct monitoring through integrated procedures and processes set for monitoring the efficiency of the Bank's operations, reliability of financial reports and compliance with the laws and by-laws. The Bank's internal control system is established through parallel operating of three mutually independent functions: (a) risk control function, (b) compliance monitoring function, and (c) internal audit function.

Research and development

Intangible assets include internally developed software of total capitalised value of HRK 19.6 million. The Bank uses software in its business, and it is transferred to use according to the stage of completion.

Expenditure related to the development of software is capitalised when it meets the criteria outlined in IAS 38 Intangible Assets.

Information relating to treasury shares repurchase

The Bank has 590,338 treasury shares as at 31 December 2022.

Subsidiaries information

The Bank has no subsidiaries.

Development plan

Since the entering J&T banka a.s. into ownership structure of the Bank, business strategy is based on implementation of successful and long term banking experience of J&T Banka in Czech Republic and Slovakia, in Croatia, i.e. in J&T banka d.d. This strategy adapts to the necessities of Croatian market in order to fulfill all regulatory requirements and market specificities.

J&T Finance Group has extensive experience in a wide range of services, starting with retail banking, through corporate banking, where in J&T banka d.d. focus is on corporative banking, private banking did not take root in Croatia, it was decided to continue business with retail banking, but exclusively in aspect of passive business (deposit collection), not active (crediting). The Bank suspended retail activities, meaning loans to retail clients (citizens) through any aspect of consumer loans, but it shall be present in the segment of deposit collection as one of the significant sources of financing.

Within the domain of deposit collection, Bank strategy in the following mid-term period plans to reflect the strategy of the parent company, which is based on business with clients with significant financial assets. For this purpose, offered optimal and unique combination of financial products and services shall be developed, also based on J&T Group business practice and experience. Plan is to maintain 2 branches during 2023, in Zagreb and Varaždin, in which employees of the Bank shall have direct relationship with clients. It is also planned in the upcoming mid-term period to invest in the acquisition of a ready-made IT solution, which would enable on-line retail deposit collection, which would open an additional large deposit collection channel.

The basic strategic guideline on which the Bank basis its business plans (and which remain in force in 2023 as well) are the following ones:

- focus on corporative market segment, primarily on financing from the domain of investment banking, project financing, refinancing/restructuring of exposures from other creditors, financing investments in the tourist industry, financing projects related to renewable energy sources and financing of real estate project, and other activities within the experience of J&T Group, including J&T banka d.d.,
- creating possibilities for financing of the placements whose necessary amount of credit financing exceeds capital possibilities of the Bank, in a way that other members of the Group (primarily the parent company) are included in the financing through syndicated loans,
- individual approach to the client and creation of banking products in accordance with clients needs,
- finding solutions for the client – so called "customer intimacy" approach – spending significant amount of time with clients in order to understand their needs and to create financial solutions without making solutions which would displease both sides,
- healthy portfolio growth (induced additional tools and criteria while approving placements in order to ensure the quality of portfolio and adequate diversification parallel with the growth of portfolio)
- continuous advancement of credit risk management process within the Bank, i.e. keeping the focus on risk control mechanisms, related to the growth of assets and mostly more advanced and complex loan structures,
- continuous control over operational costs and their maintenance on existing levels, after the operational restructuring has been finalized in previous periods,
- continuous training and education of human resources (in the form of internal education, transferring the knowledge from one organizational unit/person to another as well as encouragement to participate in quality external educations,
- giving significant focus to agency businesses, where the Bank, among other members of the Group, is possible to make significant fee income for management of placements which were in the whole or in its larger part financed on behalf of these members (placements related to financing of foreign investors for projects in Croatia, but also those where the Bank participates and are related to other foreign markets such as Germany, Austria etc.).

The mission is to build a stable bank on Croatian market directed towards prosperous clients, who are able to ensure their own assets/equity, as well as contribution of external bodies (for example non-refundable funds, subordinated loans of third parties, etc), while financing certain projects.

Bank's clients should, primarily, should have good reputation, i.e. known and checked entrepreneurs experienced in the financed branch.

Targeted clients of the Bank should be clients who invest significant part of their own capital or assets into projects which request partial financing from the Bank, and those who are able to obtain additional funding from third parties, which are ready to subordinate their claims to the claims of the Bank. Using above given mechanisms of risk dispersion on several parties/entities, the Bank achieves decrease of credit risk which it takes through approval of certain placement, achieving also more quality in the Bank's portfolio structure.

Certain part of total credit exposure of the Bank shall continue to be directed to financing of foreign clients who are also clients of the J&T Group, but prior to such placements, risk analysis of primary and secondary payment shall be conducted, as well as with all other placements entering into the bank through other sale channels, taking into consideration the specifics of such clients, such as their business activities, in comparison to the clients financed by the Bank in larger scope (duo to which risk product approved to these clients deviate from usual placement conditions in the form of collateral, repayment method, etc.).

The enormous challenge of global warming and climate change puts in front of all subjects who can make a difference the responsibility to contribute to changes. Accordingly, the Bank recognized the need for stronger involvement of ESG risks in the framework of risk management and capital management. Measures to be implemented in the future period will be based on supporting clients with technologically advanced and sustainable operations, which are decreasing reliance on carbon and use energy from renewable sources. In addition, the Bank will prefer those business clients who operate on an ethical basis and use an operating model based on a good and stable corporate management.

Sustainable development is becoming a strategic determinant and one of the priorities in the operations of the Bank, which is aware of its own role, as well as the role of the financial sector, in achieving goals leading to carbon neutrality. In accordance with the environmental (E), social (S) and governance (G) goals of sustainable development, the Bank will try to deal with global climate and social challenges to the greatest extent possible and applicable through its actions and activities.
The Bank regularly updates its Code of Corporate Governance, which contains information related to the rules of good corporate governance in general, but also information related to the company's strategy, taking into account the potential effect of activities on encouraging ethical behavior, respect for human rights and a suitable and stimulating work environment.

While forming the credit risk strategy, Bank shall further take into consideration the goal of adequate portfolio diversification, which shall be addressed with continuation of minimally annual update of introduced internal limits for certain product types, activities and all other mutual risk factors, all with the goal of mastering and controlling the concentration risk.

Collection of deposits and share capital generate the basis for fulfilment of previously given mission, together with parallel maintenance of capital requirements, i.e. capital adequacy ratio at minimal level. J&T banka, a.s. has in the previous period ensured enough capital to fulfill all legal criteria necessary for further development of the bank, and Bank's business plans for future put further accent on capital adequacy as primary goal.

In line with above stated, during its regular update of the Risk Appetite Statement in 2023, the Bank will recalibrate its targeted indicators inside the capital adequacy domain, and will implement higher buffers in respect to minimum prescribed levels of capital adequacy indicators, in order to enable a more proactive and earlier reaction in case that these indicators are worsened in a way that they are at suboptimal levels.

Depending on price trends at capital market, the Bank shall in the future actively adapt its pricing/interest rate policy, in order to combine in its financing structure the funds received from its deponents (retail and corporate) and funds received from other sources, which is primarily related to the possibility of assets growth financing through credit line from the owner.

Also, in case of further necessity, owners have expressed the possibility of further capital strengthening of the Bank in their letter of support (primarily due to growth of Bank's portfolio).

However, the ultimate goal of the owner is to operate on the Croatian market through branch of J&T banka a.s., but at this moment no formal decision was made by the owner on how to implement it. Whichever method is chosen (and the final decision is expected to be made in 2023), the Bank will be focused on providing support in the transformation process, in the areas where it is applicable.

Risk management

The most significant types of financial risk to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk include foreign exchange risk, interest rate risk and risk of changes in market prices of equity and debt securities.

An integrated risk management system is being developed and constantly upgraded on the Bank level by introducing policies and procedures for risk assessment, measurement, control and management, and for determining the risk exposure limits compliant with the legal framework and the Bank’s risk profile.

Credit risk

The Bank is exposed to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of a client or third party or when issuing guarantees. The risk of default which occurs in financial instrument transactions with certain parties is constantly monitored. To manage credit risk, the Bank deals with clients of good credit standing and obtains security instruments in order to, as a rule, secure the repayment of placement by two independent instruments (cash flow and collateral).

Credit risk is managed in line with the Bank's policies. Credit exposure toward a portfolio or specific groups is regularly reviewed in accordance with established limits. The competent bodies of the Bank responsible for approving limits are regularly informed of limit utilization. The Credit Committee approves all material increases in credit exposure and issues all decisions related to credit risk.

Liquidity risk

Liquidity risk arises in the funding of the Bank's activities and in the management of its positions. The Bank has access to different sources of funding. Funds are collected through a variety of instruments, including different type of deposit, borrowings, dependent liabilities, including deposits, borrowings and equity. The Bank is systematically working on defining the procedures and business processes that efficiently monitor liquidity risk by detecting and monitoring changes in funding in order to achieve business objectives set in accordance with the overall business strategy of the Bank.

The Bank adapts its business activities related to liquidity risk in accordance with legal provisions and internal policies for maintaining liquidity reserves, matching assets and liabilities and limit control, and with targeted liquidity ratios and contingency plans. The Treasury manages liquidity reserves on a daily basis and ensure that all of the client's needs are successfully met.

Market risk

Market risk management entails position and foreign exchange risk management. In order to manage position risk defined as the risk of loss arising from the change in the price of a financial instrument, a limit system has been established according to the type of financial instrument and issuer. Limit utilization is monitored on a daily basis.

Foreign exchange risk, defined as loss arising from the change in exchange rates of a relevant foreign currency due to the currency gap in the balance sheet, is managed by the Bank on a daily basis in accordance with legal provisions related to the open foreign exchange position.

Interest rate risk represents the sensitivity of the Bank's financial position to movements in interest rates. The Bank's operations are influenced by interest rate risk to the extent that interest-bearing assets and liabilities mature, or their interest rates change at different points in time or in different amounts.

Operational risk

Operational risk exists in every segment of the Bank's operations, requiring knowledge and continuous monitoring of all business processes. The organizational model of the operational risk management process is conceived at the level of centralized and decentralized functions of operational risk management and it is carried out in accordance with legal provisions, Basel guidelines and internal acts (policies, procedures and methodologies for operational risk management).

In the context of managing operational risk of the information system, IS security management entails a series of periodic activities whose aim is to reduce operational risk of the Bank's information system, or more precisely, to implement control mechanisms, improve business processes and harmonize with legislation in order to reduce damages that vulnerabilities can cause in the Bank's information system.

In order to manage operational risk, the Bank has provided appropriate risk management for risk management, information system risk, risk model, risk to project management, risk management related to outsourcing, risk management compliance, business changes, including business risks, new products, activities, processes and systems, significant inherent risks in existing products, activities, processes and systems, and business continuity management. The Bank has provided an appropriate system for preventing money laundering and financing of terrorism.

Policies for managing financial risk are described in detail in Notes to the Annual Report for the year 2022.

For and on behalf of J&T banka d.d. Varaždin:

Hrvoje Draksler, President of the Management Board

J&T BANKA d.d.

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Petar Rajković, Member of the Management Board

Responsibilities of the Management Board and Supervisory Board for the preparation and approval of the annual report

The Management Board is responsible for preparation of financial statements for each financial year which fairly present, in all material respect, the financial position of J&T banka d.d. ("the Bank") and its operation and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for a taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting appropriate accounting policies to conform with the applicable accounting standards and then apply them consistently; make judgements and estimates that are reasonable and prudent; and preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business

The Management Board is responsible for submission of its annual financial statements to the Supervisory Board, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

The Management Board is also responsible for the preparation and fair presentation of the supplementary information prepared in accordance with the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions (Official Gazette 42/2018, 122/2020, 119/2021 and 108/2022).

The financial statements set out on pages 34 to 124 as well as supplementary schedules for the Croatian National Bank, set out on pages 125 to 131 and reconciliation, set out on pages 132 to 141 were authorised by the Management Board on 22 March 2023 for issue to the Supervisory Board and are signed bellow to signify this.

The Management Board is also responsible for the preparation and content of the Management Report as required by the Croatian Accounting Law, and for other information which comprises the Introduction, the Macroeconomic Environment and Banking Sector in the Republic of Croatia in 2022 set out on pages 2 to 12 and the Management Report presented on pages 13 to 24 and were approved by the Management Board on 22 March 2023, and are signed bellow.

For and on behalf of J&T banka d.d.:

Hrvoje Draksler, President of the Management Board

J&T BANKA d.d.

3

Petar Rajković, Member of the Management Board

Independent Auditors' report to the shareholder of J&T banka d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of J&T banka d.d. ("the Bank"), which comprise the statement of financial position of the Bank as at 31 December 2022, and the statements of comprehensive income, cash flows and changes in equity of the Bank for the year then ended, and notes, comprising significant accounting policies and other explanatory information (further referred to as "the financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Croatia and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters

Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key audit matters

Impairment of loans and advances to customers

As at 31 December 2022, gross loans and advances to customers: HRK 319,375 thousand, related impairment allowance: HRK 36,895 thousand and impairment loss recognised in the income statement: HRK 14,961 thousand (31 December 2021, gross loans and advances to customers: HRK 372,009 thousand, impairment allowance: HRK 22,872 thousand and reversal of impairment loss recognised in the income statement: HRK 3,492 thousand).

Refer to Significant accounting policies, note 5 Significant accounting estimates and judgements, note 4.1.1 Credit risk section and note 10 Loans and advances to customers).

Key audit matter	How our audit addressed the matter
Impairment allowances represent the Management Board's best estimate of the expected credit losses ("ECLs") within the loans and advances to customers at the reporting date. We focused on this area as the determination of impairment allowances requires significant judgment from the Management Board over the amounts of any such impairment. The Bank calculates allowances for credit losses in accordance with the Croatian National Bank's (the CNB's) regulations, which incorporate the requirements of IFRS 9 *Financial instruments*, based on the expected credit loss (ECL) model (with dual-measurement approach, under which the impairment allowance is measured as either 12-months expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk (SICR) since initial recognition). The impairment allowances for the majority of performing exposures (Stage 1 and Stage 2) (together "collective impairment allowance") are determined by modelling techniques relying on key parameters such as the probability of default (PD) and loss given default (LGD), other than in respect of the LGD parameter for performing exposures above HRK 1 million and exposures secured with collateral below HRK 1 million, which is calculated individually based on different scenario assumptions. The above assessment takes into account historical experience, identification of exposures with a significant deterioration in credit quality and forward-looking information.	Our audit procedures in this area included, among others: • Inspecting the Bank's ECL impairment methods and models, and assessing their continued compliance with the relevant requirements of the financial reporting standards and of the CNB rules. • Testing the design, implementation and operating effectiveness of selected key controls over the approval, recording and monitoring of loans, the controls relating to the identification of significant increase in credit risk and events of default, appropriateness of the classification of exposures into performing and non-performing and their segmentation into homogenous groups, calculation of days past due and calculation of the impairment allowances. • For loss allowances calculated on a collective basis: — Assessing whether the definition of SICR and of an event of default are appropriate and whether the CNB's staging criteria were consistently applied; — Obtaining the relevant forward-looking information and macroeconomic projections used in the Bank's ECL assessment. Independently assessing the information by means of corroborating inquiries of the Management Board and inspecting publicly available information; — Challenging the collective LGD and PD parameters used by the Bank, by reference to historical realized losses on those defaults and considering any required adjustments to reflect expected changes in circumstances.

Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key audit matters (continued)

Impairment of loans and advances to customers (continued)

Key audit matter	How our audit addressed the matter
ECLs for non-performing exposures (Stage 3) are generally determined on an individual basis by means of a discounted cash flow analysis. The process involves subjectivity and reliance on a number of significant assumptions, including those in respect of the probable sale proceeds from the related collateral and minimum period for collateral disposal. Considered is the Bank's own historical experience and specific guidance of the Croatian National Bank (CNB) regarding minimum haircuts to be applied on the estimated value of collateral. While the credit environment in 2022 reflected a recovery from the COVID-19 pandemic, it also reflected unfavourable changes in economic outlook, disruptions to energy and other commodity markets including the impact of slowing economic growth as well as evolution of elevated inflationary pressures and increase in interest rates. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.	• For impairment allowances calculated individually, for a risk-based sample of loans and advances: — assessing the existence of any triggers for classification to Stage 2 or Stage 3 as at 31 December 2022, by reference to the underlying documentation (loan files), through discussions with the loan officers and credit risk management personnel and by considering business operations of the respective customers as well as market conditions and historical debt service; — for individually calculated LGD, challenging key assumptions applied in the Management Board's estimates of expected future cash flows, by comparing the value of collateral used by the Bank with that assessed by us, by comparing EBITDA used by the Bank with clients' historical EBITDA and by comparing Bank's EBITDA multiples used in LGD calculation with publicly available data, where relevant. — for those loans where triggers for classification in Stage 3 were identified, challenging key assumptions applied in the Management Board's estimates of future cash flows used in the impairment calculation such as discount rates, collateral values and realization period by reference to loan files and market rates or by performing respective independent recalculations. • Critically assessing the overall reasonableness of the impairment allowances, including both the share of the gross non-performing exposure in total gross exposure and the non-performing loans provision coverage; • Evaluating the accuracy and completeness of the financial statement disclosures relating to expected credit losses against the requirements of the relevant financial reporting framework.

Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Key audit matter (continued)

Going concern considerations

Refer to Basis of preparation and note 39 Impact of economic environment which specifically addressed the uncertainties related to the Impact of economic environment (war in Ukraine)	
Key audit matter	**How our audit addressed the matter**
The Bank's financial statements are prepared on a going concern basis. In 2022, the Bank reported a net loss in the amount of HRK 17,385 thousand (2021: net profit in the amount of HRK 2,975 thousand), and as at 31 December 2022 had accumulated losses of HRK 232,902 thousand (31 December 2021: accumulated losses of HRK 215,517 thousand). Due to the losses reported in the past, the Bank has received several capital injections from the majority shareholder in order to maintain its capital adequacy ratio at least at the minimum level required by the CNB. As disclosed in Note 4.1.5, the Bank's capital Tier 1 adequacy ratio as at 31 December 2022 amounted to 27.7%. Although the ratio is above the CNB's minimum prescribed level, potential future significant losses without adequate capital support may erode the capital base. Additionally, as disclosed in Note 40, the Bank has significant exposure to one client located and operating on the Ukrainian market. The exposure represents approximately 2,7% of the Bank's total assets as at 31 December 2022. As a consequence, the Bank expects that the circumstances may result in higher level of defaults and decrease in interest income, with effects on the Bank's liquidity and capital adequacy. In the wake of the above facts and circumstances, the Management Board performed an assessment of whether the Bank would have sufficient resources and adequate capital to continue as a going concern for a period of at least 12 months from the reporting date. The Bank's going concern assessment was based on an analysis of profit and loss forecasts, as well as liquidity projections. The preparation thereof incorporated a number of complex assumptions and required the Management Board to apply significant judgment. The Management Board concluded that the range of possible outcomes considered at arriving at its going concern judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. Note 2 f) to the financial statements further explains how the judgment was formed by the Management Board. The Bank's use of the going concern basis of accounting is a key audit matter due to the associated extent of uncertainty, and consequently, high level of judgment required in evaluating the Management Board's plans for future actions and their financial impact.	Our audit procedures in this area included, among others: • Inspecting the Management Board's assessment of the going concern basis of accounting, including their evaluation of the business/operating and liquidity risks related to the second or third round effects from the conflict between Russia and the Ukraine, incl. from macroeconomic implications, rising energy prices, expected inflation, and plans for further actions in response to the risks identified. As part of the procedure we also made corroborating inquiries of the Bank's Management Board; • Analysing the Bank's capital adequacy position (in particular, the minimum capital requirement), and challenging the Management Board's alternative plans for future actions in relation to the going concern assessment, including the feasibility of those plans; • Comparing the Bank's profit and loss forecasts for the current and previous years to the current year's outcomes to assess the quality of the Management Board's forecasting process; • Evaluating the Bank's analysis of the Russia and Ukraine conflict and sources of risk for the Bank's business and financial resources, including potential negative effects on the Bank's credit portfolio, as compared with our own understanding of the risks. We considered Management Board's plans to take action to mitigate the risks; • Considering the above procedures, challenging the Bank's financial performance and cash flows forecasts provided to us in support of the management's use of the going concern basis of accounting, by assessing the planned measures to be implemented by the Bank; specifically challenging the key assumptions and judgements with most significant impact on these forecasts, including, among others: — forecast of interest and similar income; — expected loan impairment losses; — capital adequacy position. • Performing an analysis of the going concern conclusion's sensitivity to changes in the aforementioned key assumptions adopted in the going concern assessment, and considering whether there were any indicators of management bias in the assessment; • Evaluating the appropriateness of Bank's disclosures in respect of the going concern assessment, subsequent events and any related uncertainties in the financial statements.

This version of the Auditors' Report is a translation from the original, which was prepared in the Croatian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all maters of interpretation of information, views or opinions, the original language version of the audit report takes precedence over this translation.

Independent Auditors’ report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises of the Introduction, the Macroeconomic environment and banking sector in the Republic of Croatia in 2022, and the Management Report included in the Annual Report of the Bank, but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report, we also performed procedures required by the Accounting Act in Croatia (“Accounting Act”). Those procedures include considering whether the Management Report has been prepared in accordance with the requirements of Article 21 of the Accounting Act.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared, is consistent, in all material respects, with the financial statements;
- the Management Report has been prepared, in all material respects, in accordance with the requirements of Article 21 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Introduction, the Macroeconomic environment and banking sector in the Republic of Croatia in 2022, and the Management Report. We have nothing to report in this respect.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements which are presented fairly, in all material respects in accordance with EU IFRS, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank’s financial reporting process.

Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditors' report to the shareholders of J&T banka d.d. (continued)

Report on the Audit of the Financial Statements *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Pursuant to the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions (Official Gazette 42/2018, 122/2020, 119/2021 and 108/2022), the Management Board of the Bank has prepared the schedules ("the Schedules"), which comprise an alternative presentation of the statement of financial position as of 31 December 2022, and of the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a reconciliation ("the Reconciliation") of the Schedules with the financial statements. The Management Board of the Bank is responsible for the Schedules and the Reconciliation. The financial information in the Schedules is derived from the financial statements on which we have expressed an opinion as set out above.

We were appointed by those charged with governance on 1 June 2022 to audit the financial statements of the Bank for the year ended 31 December 2022. Our total uninterrupted period of engagement is 7 years, covering the periods from 1 January 2016 to 31 December 2022.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company dated 17 March 2023;
- for the period to which our statutory audit relates, we have not provided any non-audit services (NASs), hence we have not provided any prohibited non-audit services referred to in Article 44 of the Audit Act. We also remained independent of the audited entity in conducting the audit.

KPMG Croatia d.o.o. za reviziju
Croatian Certified Auditors
Eurotower, 17th floor
Ivana Lučića 2a
10000 Zagreb
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Ivana Lučića 2a, 10000 Zagreb

22 March 2023

Katarina Kecko
Partner, Croatian Certified Auditor

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Statement of financial position as at 31 December 2022

[HRK'000]	Notes	31 December 2021	31 December 2022
ASSETS			
Amounts with the Croatian National Bank	6	221,238	214,554
Cash and accounts with other banks	7	29,769	28,369
Placements with other banks	8	476	-
Financial assets - securities	9	174,729	118,025
Loans and advances to customers	10	351,196	283,447
Property and equipment	11	14,906	13,600
Intangible assets	12	6,767	4,984
Other assets	13	13,852	1,529
TOTAL ASSETS		**812,933**	**664,508**
LIABILITIES			
Deposits from customers	14	582,488	521,385
Deposits and borrowings from banks	15	52,485	6,669
Subordinated debt	16	42,552	22,604
Provisions for liabilities and charges	17	3,039	1,759
Other liabilities	18	16,899	13,770
Deferred tax liability	29 c)	75	-
TOTAL LIABILITIES		**697,538**	**566,187**
EQUITY			
Share capital	19.a	307,085	327,085
Share premium	19.b	21,435	21,435
Treasury shares	19.d	(2,202)	(2,202)
Other reserves	19.c	3,792	3,792
Fair value reserve	19.e	802	(18,887)
Accumulated loss	19.f	(215,517)	(232,902)
TOTAL EQUITY		**115,395**	**98,321**
TOTAL LIABILITIES AND EQUITY		**812,933**	**664,508**

The significant accounting policies and other notes on pages 39 to 124 form an integral part of these financial statements.

Income statement for 2022

[HRK'000]	Notes	2021	2022
Interest income calculated using the effective interest method	20	27,567	17,897
Interest and similar charges	21	(4,712)	(3,752)
Net interest income		**22,855**	**14,145**
Fee and commission income	22	3,501	4,996
Fee and commission expense	23	(757)	(481)
Net fee and commission income		**2,744**	**4,515**
Net gains and losses from financial assets at fair value through profit or loss and financial assets at fair value through OCI	24	493	115
Net foreign exchange gains and FX trading income	25	2,345	1,537
Other income	26	5,749	2,633
Trading and other income		**8,587**	**4,285**
Personnel expenses	27a	(14,793)	(12,797)
Depreciation and amortisation	11, 12	(5,011)	(4,516)
Other administrative expenses	27b	(8,794)	(7,605)
Expected credit losses	28a	3,852	(14,088)
Provisions	28b	(6,465)	(1,324)
(LOSS) / PROFIT BEFORE TAX		**2,975**	**(17,385)**
Income tax expense	29a	-	-
(LOSS) / PROFIT FOR THE YEAR		**2,975**	**(17,385)**
EARNINGS PER SHARE (in HRK)	**30**	**0.10**	**(0,53)**

The significant accounting policies and other notes on pages 39 to 124 form an integral part of these financial statements.

Statement of comprehensive income for 2022

[HRK'000]	2021	2022
Profit/ (loss) for the year	**2,975**	**(17,385)**
Items that will be reclassified subsequently to profit or loss:		
Financial assets at fair value through OCI - net change in fair value	(2,376)	(19,612)
Financial assets at fair value through OCI – reclassified to profit or loss	509	115
Financial assets at fair value through OCI - net changes in ECL allowance	(191)	(268)
Financial assets at fair value through OCI - deferred tax	371	75
Other comprehensive (loss)/gain, net of tax	**(1,687)**	**(19,690)**
TOTAL COMPREHENSIVE INCOME/(LOSS)	**1,288**	**(37,075)**

The significant accounting policies and other notes on pages 39 to 124 form an integral part of these financial statements.

Statement of changes in equity

[HRK'000]	Notes	Share capital	Share Premium	Treasury shares	Other reserves	Fair value reserve	Accumulated loss	Total
Balance at 1 January 2021		**307,085**	**21,435**	**(2,202)**	**3,792**	**2,489**	**(218,492)**	**114,107**
Total comprehensive income								
Profit for the year		-	-	-	-	-	2,975	2,975
Financial assets at fair value through OCI:								
Net change in fair value		-	-	-	-	*(2,376)*	-	*(2,376)*
Reclassified to profit or loss		-	-	-	-	*509*	-	*509*
Net changes in ECL allowance		-	-	-	-	*(191)*	-	*(191)*
Deferred tax on movements in fair value reserve		-	-	-	-	*371*	-	*371*
Total comprehensive income/(loss)		-	-	-	-	**(1,687)**	**2,975**	**1,288**
Balance at 31 December 2021		**307,085**	**21,435**	**(2,202)**	**3,792**	**802**	**(215,517)**	**115,395**
Balance at 1 January 2022		**307,085**	**21,435**	**(2,202)**	**3,792**	**802**	**(215,517)**	**115,395**
Total comprehensive income								
Loss for the year		-	-	-	-	-	(17,385)	(17,385)
Financial assets at fair value through OCI:							-	-
Net change in fair value		-	-	-	-	(19,612)	-	(19,612)
Reclassified to profit or loss		-	-	-	-	115	-	115
Net changes in ECL allowance		-	-	-	-	(268)	-	(268)
Deferred tax on movements in fair value reserve		-	-	-	-	75	-	75
Total comprehensive income/(loss)		-	-	-	-	**(19,690)**	**(17,385)**	**(37,075)**
Recapitalization		**20,000**	**-**	-	-	**-**	**-**	**20.000**
Balance at 31 December 2022		**327,085**	**21,435**	**(2,202)**	**3,792**	**(18,888)**	**(232,902)**	**98.320**

The significant accounting policies and other notes on pages 39 to 124 form an integral part of these financial statements.

Statement of cash flows for 2022

[HRK'000]	Notes	2021	2022
Cash flow from operating activities			
Profit/(loss) for the year		2,975	(17,385)
Adjustments:			
Depreciation, amortization and value adjustments of property and equipment and intangible assets	11, 12	6,474	4,516
Write-offs of property and equipment		6,325	95
Impairment losses and provisions without foreclosed assets	28	(1,448)	15,414
Net interest income		(22,991)	(14,145)
Net gains on financial assets at fair value through profit or loss and financial assets at fair value through OCI	24	(493)	(115)
		(9,158)	**(11,620)**
Changes in operating assets and liabilities			
Net (increase)/decrease in loans and advances to customers		81,969	51,730
Net (increase)/decrease in placements with other banks		1	476
Decrease in obligatory reserves		6,909	36,731
Net decrease in other assets		19,644	12,323
Net increase/(decrease) in deposits from customers		(259,928)	(60,727)
Net (decrease) in other liabilities and provisions		(28,026)	(3,585)
Movements in operating assets and liabilities		**(179,431)**	**36,948**
Interest received		34,146	19,066
Interest paid		(5,861)	(3,865)
Net cash inflow/outflow from operating activities		**(160,304)**	**40,529**
Receipts from/(purchase of) investment funds		31,329	-
Purchase of debt securities		(32,126)	(15,804)
Proceeds from debt securities		114,140	53,091
Acquisition of property and equipment and intangible assets		(4,163)	(1,522)
Net cash outflow / inflow from investing activities		**109,180**	**35,765**
Receipts from borrowings		104,406	92,010
Repayment of borrowings		(59,980)	(137,833)
Repayment of lease liabilities		(1,592)	(2,072)
Cash payment for the interest portion of lease liabilities		(136)	(256)
Increase/(decrease) in subordinated debt		(4,465)	(19,948)
Recapitalization of the owner		-	20,000
Net cash outflow from financing activities		**38,233**	**(48,099)**
Net (decrease)/increase in cash and cash equivalents		(12,891)	28,195
Cash and cash equivalents at the beginning of the year		227,719	214,828
Cash and cash equivalents at the end of the year	**32**	**214,828**	**243,023**

The significant accounting policies and other notes on pages 39 to 124 form an integral part of these financial statements.

Notes to the financial statements

1. General information

J&T banka d.d. ("the Bank") Member of the J&T Finance Group, dated back to 1994, when the Brodsko-posavska banka d.d. was incorporated in Slavonski brod, to build upon the tradition of the former Varaždinska banka, it changed its name on December 27, 2004 to Vaba d.d. banka Varaždin and relocated to Varaždin.

The Czech bank J&T a.s. recapitalised the bank with HRK 75 million in June 2014 and increased the Bank's capital to HRK 128.6 million. During 2015, J&T has further invested in the Bank's capital and the share capital was increased to HRK 231.1 million. During 2016, another increase of the share capital of the Bank was conducted in the amount of HRK 76 million by the majority shareholder of the Bank - J&T Bank a.s. so the new share capital amounts to HRK 307.1 million, and J&T Banka a.s. holds a total of 25,350,000 shares tags BPBA-R-B or equity of 82.55%. After taking over shares from small shareholders during 2022, J&T banka a.s. holds a total of 32,708,540 shares, or a share in the share capital of 98.20%.

From 1 January 2017 the Bank started operating under the name J&T banka d.d.

These financial statements were approved by the Board on 22 March 2023 for submission to the Supervisory Board.

2. Basis of presentation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union ("IFRS").

These are the Bank's first financial statements prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

With certain exceptions, IFRS 1, First-time Adoption of International Financial Reporting Standards, requires retrospective application of the standards and interpretations effective as at 31 December 2022 for the preparation of the first IFRS statement of financial position as at 1 January 2021 and throughout all periods presented in its first IFRS financial statements.

In preparing these financial statements, the Bank did not have any material mandatory exceptions and did not apply any optional exemptions to the retrospective application of any IFRS standards.

For all periods up to and including the year ended 31 December 2021, financial statements were prepared in accordance with statutory accounting requirements for banks in the Republic of Croatia. At the time, the statutory accounting requirements for banks in the Republic of Croatia were based on the International Financial Reporting standards as adopted in the EU as stipulated in the Accounting Act and in accordance with the specific local CNB's banking regulations. Until the end of 2019, there were differences between statutory accounting requirements and IFRS, as the specific local regulations were impacting measurement of eligible exposures carried at amortised cost classified in Stage 1 and Stage 2 for which loss allowances could not be less than 0.8% of the gross carrying amount of eligible exposures, including exposures to financial institutions and sovereigns.

In the financial statements for the year ended 31 December 2021 prepared in accordance with the statutory accounting requirements for banks in the Republic of Croatia – the balances as at 31 December 2021 and 31 December 2020, as well as 2021 income statement and statement of cash flows were aligned with IFRS, in all material respects. Therefore, there was no need to adjust amounts reported previously in the financial statements prepared in accordance with the statutory accounting requirements for banks in the Republic of Croatia in preparing the Bank's first IFRS financial statements.

The principal accounting policies applied in the preparation of these financial statements are summarised below. The Bank has consistently applied the following accounting policies to all periods presented in these financial statements, except as disclosed above.

Notes to the financial statements (continued)

2. Basis of presentation (continued)

(b) Basis of measurement

The financial statements are prepared on a fair value basis for financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortized or historical cost.

(c) Use of estimates and judgments

In preparing the financial statements, the Management Board has made judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosure of potential liabilities at the reporting date, as well as on the amounts of income, expense and other comprehensive income for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, the result of which form the basis for making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The effects of revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by the management in application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of a possible material adjustment in future periods are discussed in Note 5.

(d) Functional and presentation currency

The Bank's financial statements are presented using the currency of the primary economic environment in which the Bank operates (the functional currency), Croatian kuna (HRK). Amounts are rounded to the nearest thousand, unless otherwise stated.

The exchange rates of currencies, in which the majority of the Bank's assets and liabilities are denominated, are used for the translation of the Bank's assets and liabilities and as at 31 December 2022 they were as follows: 1 EUR = 7,534 HRK (2021.: 1 EUR = 7,517 HRK) i 1 USD = 7,064 HRK (2021.: 1 USD = 6,643 HRK).

Starting from 1 January 2023 the Republic of Croatia changed its currency from Croatian kuna ("HRK") to Euro ("EUR") and Euro ("EUR") became the functional and presentational currency in 2023. There are no material impacts on these financial statements from change in functional and presentational currency in 2023.

Notes to the financial statements (continued)

2. Basis of presentation (continued)

(e) Application of new and revised Standards

The standards, amendments to standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

Until 31 December 2022, the European Commission endorsed the following changes to the Accounting principles applicable to reporting, these were not effective for preparation of 2022 financial statements:

- IFRS 17 Insurance Contracts (issued on 18 May 2017); including Amendments to IFRS 17 (issued on 25 June 2020);

- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021);

- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021);

- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021);

- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021).

As at 31 December 2022 the IASB issued the following standards, amendments, interpretations or revisions, whose application is subject to completion of the endorsement process by the competent bodies of the European Commission, which is still ongoing:

- Amendments to IAS 1: Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020 respectively),

- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022).

These standards, are not expected to significantly affect the Bank’s financial statements.

(f) Going concern

The financial statements have been prepared on a going concern basis.

In 2022, the Bank realised a loss of HRK 17.4 million (2021: net profit of HRK 3 million) and at 31 December 2022 had accumulated losses of HRK 232.9 million (31 December 2021: 215.6 million). Due to significant losses in the past, the Bank had several recapitalisations by the majority owner since 2014 in order to maintain capital adequacy prescribed by the CNB.

As disclosed in Note 4.1.5, the TIER 1 capital adequacy ratio at 31 December 2022 amounts to 27.70% and is above the minimum rate prescribed by the CNB and the Bank’s total capital adequacy ratio amounts to 29.62%.

In 2022, the Russia-Ukraine conflict upended the geopolitical landscape, with wide-ranging impacts to the global economy and markets. The duration and path of the conflict remains uncertain, and could continue to fuel, or exacerbate global tensions, energy and other commodity shortages, supply chain disruptions,

Notes to the financial statements (continued)

2. Basis of presentation (continued)

(f) Going concern (continued)

inflationary pressures, weakening sentiment and growth prospects, market volatility cyberattacks, and the proliferation of sanctions and trade measures.

Considering the significant macroeconomic uncertainty, the Management Board believes with reasonable certainty that the Bank will have sufficient resources to continue operations for at least 12 months from the reporting date and that the going concern basis of preparation of financial statements is appropriate.

As disclosed in Note 39, the going concern assumption has been influenced by systemic threats associated with the uncertain macroeconomic environment.

Note 39 provide further details of the facts and circumstances considered by the Management Board in concluding on the going concern assumption.

Notes to the financial statements (continued)

3. Significant accounting policies

(a) Interest income and expense

Interest income and expense are recognized in profit or loss as it arises for all interest-bearing financial instruments, including those measured at amortized cost and FVOCI debt securities, taking into account the effective rate of return of the asset / liability or the applicable variable rate. Interest income and expense includes amortization of the discount or premium, as well as other differences between the initial carrying amount of the interest-bearing financial instrument and the amount by maturity, which is calculated using the effective interest rate.

An effective interest rate is the rate at which the expected future cash outflows or receipts are discounted over the expected lifetime of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Interest income is recognized depending on the degree of credit risk of a financial instrument and for financial assets classified in Stage 1 and Stage 2 (performing) - when calculating interest income, the EIR is applied to the gross carrying amount of financial assets, and for financial assets allocated to Stage 3 the interest is suspended. Suspended interest represents an already charged interest on an asset for which an individual impairment has been recognized (non-performing). At the time of reclassification into uncollectable receivables, the Bank impairs the full amount of accrued uncovered interest at the expense of the income statement and suspends further calculation in the balance sheet and keeps the suspended interest off-balance until the debtor makes a cash payment.

For purchased or originated credit-impaired financial assets decreased for credit losses - POCIs, the EIR adjusted for credit risk at the amortized cost of the POCI assets is applied in the calculation of interest income. The Bank suspends calculation of interest in the balance sheet and keeps the suspended interest off-balance until the debtor makes a cash payment.

In calculating the effective interest rate, the Bank does not take into account future credit losses. The calculation includes all fees and percentage points paid or received between the contracting parties which are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(b) Fee and commission income and expense

Fee and commission income and expense arise on financial services provided by the Bank and received by the Bank, and mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by the Bank. Fee and commission income and expense are recognised in the income statement when the related service is performed.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part for itself or has retained a part at the same effective interest rate as other participants. Portfolio and other management service fees are recognised based on the applicable service contracts.

(c) Dividend income

Dividend income from equity securities is recognised in the income statement when the rights to receive the dividend are established.

(d) Net realised gains and losses from financial assets at fair value through profit or loss and financial assets at fair value through OCI

The category includes realised and unrealised gains and losses on debt and equity securities held for trading and other financial instruments at fair value through profit or loss.

Net gains and losses on derecognition of financial assets at fair value through other comprehensive income refer to gains and losses from sale of debt securities classified as FVOCI.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(e) Net foreign exchange gains and losses

Net gains and losses from foreign exchange include unrealised and realised gains and losses arising from spot dealings in foreign currencies.

(f) Foreign currencies

Foreign currency transactions are translated into the respective functional currency using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into HRK at the foreign exchange rate prevailing at that date.

Foreign currency differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into HRK at the foreign exchange rate prevailing at the date on which their fair value was determined.

Non-monetary assets and items that are carried at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction and are not re-translated.

Changes in the fair value of securities denominated in foreign currency classified as fair value through OCI are separated between exchange rate differences arising from changes in the amortized cost of securities and other changes in the carrying amount of the security. Foreign exchange differences on securities classified as FVOCI are recognised in profit or loss, while other changes in carrying amount are recognised in other comprehensive income.

Foreign exchange differences are recognized in the income statement as part of exchange gains or losses on the sale of monetary assets and liabilities. Foreign exchange differences on non-monetary financial assets, are included within other comprehensive income.

(g) Financial instruments

i) <u>Classification</u>

After initial recognition, financial assets are classified as assets at amortized cost, assets at fair value through other comprehensive income (FVOCI) and assets at fair value through profit and loss (FVTPL).

Financial assets are measured at amortized cost if they meet both of the following conditions and if they are not valued at fair value through profit and loss (FVTPL):

- The purpose of a business model is to hold assets in order to collect contractual cash flows;
- The contractual terms of a financial asset presume cash flows that are solely principal and interest payments (SPPI), at specific dates.

A debt instrument is measured at fair value through other comprehensive income (FVOCI) if it meets both of the following conditions and if it is not valued at fair value through profit and loss account (FVTPL):

- The purpose of the business model is the holding of assets for the purpose of collecting contractual cash flows and the sale of financial assets; and
- contractual terms of financial assets presume cash flows that are solely principal and interest repayment (SPPI), at specific dates.

In the initial recognition of an investment in equity instruments that are not held for trading, the Bank may irrevocably decide to display subsequent changes in fair value through other comprehensive income. This choice is made on the basis of a particular investment.

All other financial assets are classified as measured at fair value through profit or loss (FVTPL).

In addition, at initial recognition, the Bank may irrevocably evaluate financial assets at fair value through profit or loss (FVTPL), although it meets the measurement requirements at amortized cost or at fair value through other comprehensive income (FVOCI), if this eliminates or substantially reduces the accounting mismatch that would arise if contrary.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

i) <u>Classification</u> (continued)

Business Model Assessment

The Bank determines the goal of the asset's business model because it best represents the way in which assets are managed and the Bank's management is reported. Information considered includes:

- management policies and portfolio objectives and implementation of these policies in practice;
- assessing the performance of the portfolio and reporting to the management of the Bank;
- risks affecting the performance of the business model (and financial assets within that business model) and the risk management strategy; and
- frequency, volume and time of sales in previous periods, reasons for the sale and expectations of future sales activities.

Financial assets held for trading and whose performance is assessed on the basis of fair value are measured at fair value through profit and loss account, as it is not held for the purpose of collecting the contracted cash flows nor for collecting contractual cash flows and for sale.

Estimate whether contractual cash flows are solely principal and interest payments

In order to assess whether contractual cash flows are solely payments of principal and interest, the principal is defined as the fair value of financial assets at initial recognition. Interest is defined as compensation for the time value of money and credit risk associated with the outstanding principal amount over a specified period of time and for other basic risks and costs of lending (eg liquidity risk and administrative costs) and as a profit margin.

When assessing whether the contractual cash flows are solely principal and interest payments (SPPI), the Bank considers the contractual terms of the instrument. This includes assessing whether a financial asset contains a contractual term that could change the time or amount of contractual cash flows so that it would not meet the SPPI requirement. When assessing, the Bank considers:

- potential events that would change the amount and time of cash flows;
- terms of prepayment and extension; and
- features that alter the consideration of the time value of money (eg periodic interest rate reset).

Reclassification

Financial assets are not reclassified after initial recognition, except in the period after the change in the financial model for the financial asset management.

Loans and advances to customers

The "Loans and advances to customers" caption in the statement of financial position includes loans and advances measured at amortised cost; initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

i) Classification (continued)

Financial assets - investment securities

The 'financial assets - investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at fair value through profit and loss account (FVTPL) or designated as at fair value through profit and loss account (FVTPL); these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at fair value through other comprehensive income (FVOCI); and
- equity investment securities designated as at fair value through other comprehensive income (FVOCI).

For debt securities measured at fair value through other comprehensive income (FVOCI), gains and losses are recognised in other comprehensive income (OCI), except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income;
- calculation of Expected credit loss (ECL) and reversals; and
- foreign exchange gains and losses.

When debt security measured at fair value through other comprehensive income (FVOCI) is derecognised, the cumulative gain or loss previously recognised in other comprehensive income (OCI) is reclassified from equity to profit or loss.

The Bank decides to present in other comprehensive income (OCI) changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income (OCI). Cumulative gains and losses recognised in other comprehensive income (OCI) are transferred to retained earnings on disposal of an investment.

ii) Recognition and derecognition

Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders. Regular way purchases and sales of financial assets are recognised on the settlement date. The settlement date is the date that an asset is delivered to or by the Bank and while the underlying asset or liability is not recognised until the settlement date, changes in the fair value of the underlying financial assets and liabilities at fair value through profit or loss and FVOCI financial assets are recognised starting from the trade date.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

ii) Recognition and derecognition (continued)

Derecognition of financial assets due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, apart from quantitative factors, the bank considers the following: change in currency of the loan, introduction of an equity feature, change in counterparty, whether the modification is such that the instrument no longer meets the SPPI criterion.

Modifications of financial assets which do not result in substantially different cash flows

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

Derecognition of financial assets other than for substantial modification

A financial asset (or, a portion thereof or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass-through" arrangements that result in derecogntion if the Bank: (i) has no obligation to make payments unless it collects equivalent amounts from the assets, (ii) is prohibited from selling or pledging the assets and (iii) has an obligation to remit any cash it collects from the assets without material delay.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

ii) Recognition and derecognition (continued)

Derecognition of financial assets other than for substantial modification (continued)

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.
Collaterals (e.g. bonds) furnished by the Bank under standard repurchase agreements and borrowing transactions are not dereocognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price and the criteria for derecognition are therefore not met.

Derecogntion of financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. If the terms of a financial liability are significantly modified, the Bank will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.
Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

iii) Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Financial assets at fair value through profit or loss are initially recognised at fair values, and transaction costs are directly recognised in profit or loss.

After initial recognition, the Bank measures financial instruments at fair value through profit or loss at their fair value, without any deduction for selling costs.

Loans and receivables and investments measured at amortised cost and financial liabilities not designated at fair value through profit or loss are measured at amortised cost.

iv) Gains and losses

Gains or losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognised in the income statement.

Gains or losses arising from a change in the fair value of FVOCI financial assets are recognised directly in the other comprehensive income. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on financial assets at FVOCI are recognised in profit or loss. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognised in other comprehensive income.

Upon sale or other derecognition of FVOCI financial assets, any cumulative gains or losses on the instrument are transferred to the income statement. Gains or losses arising from financial assets and financial liabilities carried at amortised cost are recognised as interest in profit or loss over the period of amortisation. Gains or losses may also be recognised in the income statement when a financial instrument is derecognised or when its value is impaired. Dividend income is recognised in the income statement.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

v) Determination of fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability also reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If a market for a financial instruments is not active, for unlisted securities, or, if for any reason, fair value cannot be reasonably measured by market price, then the Bank establishes fair value using a valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction The Bank recognises the transfer between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is entirely supported by observable market data. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counterparty where appropriate.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vi) Impairment of financial assets

The Bank recognises loss allowances for "expected credit losses" (hereinafter: ECL) on the following financial instruments that are not measured at fair value through profit or loss (FVTPL):

- debt instruments;
- financial guarantee contracts issued;
- loan commitments issued and;
- loans and advances to customers.

No impairment loss is recognised on equity investments and financial assets at fair value through profit or loss (FVTPL).

The Bank measures impairment losses at an amount equal to lifetime expected credit losses (ECL), except for the following, for which they are measured as 12-month expected credit loss (ECL):

- debt securities for which it was determined to have a low credit risk at the reporting date; and
- other financial instruments for which credit risk has not significantly increased since their initial recognition.

12-month expected credit losses (ECL) are the portion of expected credit loss (ECL) that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month expected credit loss (ECL) is recognised are referred to as "Stage 1 financial instruments", or A-1 risk category by CNB.

Life-time expected credit losses (ECL) are the expected credit losses (ECL) that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime expected credit loss (ECL) is recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments", or A-2 risk category by CNB.

Expected Credit Loss Measurement (ECL)

For the purpose of assessing the expected credit losses, the Bank prescribes processes and control mechanisms for the development and application of estimation methods of expected credit losses with a goal to ensure their integrity and timely inclusion of relevant data.

Probability of default (PD) provides an estimate of the probability that the borrower will not be able to fulfil his obligations. For PD calculations loans and advances are divided into corporate and retail. Corporate loans are divided into homogeneous groups, based on type of product, while retail is a separate homogeneous group. For each homogeneous groups, the default rate is calculated based on available internally developed historical data. In order to incorporate future information adequately into macroeconomic scenarios, the Bank uses adjustments of the calculated PD to macroeconomic expectations. The macroeconomic scenario is determined on the basis of customised publicly available information. To determine the PD (probability of default) for exposures to sovereign, central banks and financial institutions or exposures rated by an external credit rating institution, the Bank uses data available on the Moody's Investor Service website. The assigned PD is based on counterparty external credit rating.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vi) Impairment of financial assets (continued)

Expected Credit Loss Measurement (ECL) (continued)

LGD (Loss Given Default) represents a loss due to default status. For unsecured exposures for which an external credit rating is available, the Bank uses the basic approach prescribed by the BIS (Bank for International Settlement) and LGD of 45% is applied (Basel Committee on Banking Supervision Discussion Paper Regulatory treatment of accounting provisions, October 2016). For securities managed under the Financial Assets model through other comprehensive income, and primarily related to corporate bonds, the Bank uses the internal rating of the parent company (J&T bank a.s.) to calculate the ECL ("Expected credit loss"). For financial instruments that relate to exposures to financial institutions which are supervised by the central bank, but do not have an established rating of the recognized ECAI, the Bank applies a single provisioning percentage of 0.80% of the gross carrying amount.

Restructuring of financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Definition of default

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, loan commitments and financial guarantees are credit-impaired (referred to as 'Stage 3 financial assets').

The borrower is considered as defaulted and therefore Stage 3 in cases when the borrower is more than 90 days past due on any material credit obligation to the Bank or when the borrower is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulties of the debtor;
- breach of contract such as failure to complete or due to maturity;
- restructuring of a loan or an advance by the Company under conditions that the Company would not consider in the normal circumstances;
- it is probable that the borrower will enter bankruptcy or another type of financial reorganisation.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vi) Impairment of financial assets (continued)

Presentation of impairment allowance for expected credit loss (ECL) in the statement of financial position

Loss allowances for expected credit loss (ECL) are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the asset;
- credit lines and issued guarantees: in general, as provisions;
- when the financial instrument includes a drawn and an undrawn component, and the Bank can not identify the expected credit loss (ECL) separately: The Bank shows a loss for both as a deduction from the gross carrying amount of the used component;
- Debt instruments measured at fair value through other comprehensive income (FVOCI): no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

vii) Offsetting of financial instruments

Financial assets and liabilities are offset, and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(h) Specific financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, on bank accounts, placements with other banks with original maturities of three months or less, and items in the course of collection.

Derivative financial instruments

In accordance with its investment policy, the Bank does not hold or issue derivative financial instruments for the purpose of speculative trading. Hedge accounting has not been applied. Derivative financial instruments are initially recognised at fair value which is the value of the consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the quoted market price or, if more appropriate, based on the discounted cash flow. All derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative.

Hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is considered to represent an embedded derivative. Unless it is inconsistent with the requirements of the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the primary contract and when the hybrid contract is not itself carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealised gains and losses recognised in the income statement, unless there is no reliable measure of their fair value.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(h) Specific financial instruments (continued)

Treasury bills and debt securities

Treasury bills and debt securities that the Bank holds for short-term gain purposes are carried at fair value. The Bank uses treasury bills for liquidity purposes.

Equity securities and investments in investment and other funds

Equity securities and investments in open-ended and close-ended investment funds are classified as asset measured at fair value through profit or loss or asset measured through other comprehensive income.

Placements with banks

Placements with banks are classified as loans and receivables and are carried at amortised cost less impairment losses.

Current accounts and deposits from banks

Current accounts and deposits from banks are classified as other liabilities and stated at amortised cost.

Deposits from customers

Deposits are classified as other liabilities and initially measured at fair value plus transaction costs, and subsequently stated at the amortised costs using the effective interest method.

Loans and advances to customers

Loans and advances to customers are presented net of impairment losses to reflect the estimated recoverable amounts or at fair value for loans and advances that are measured at fair value.

Borrowings

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds (net of transaction costs) and redemption value being recognised in the income statement over the period of the borrowings as interest expense.

Sale and repurchase agreements

The Bank enters into purchases and sales of investments under agreements to resell or repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to such commitments to resell them at future dates are not recognised in the statement of financial position. The amounts paid are recognised as loans to either banks or customers, collateralised by the underlying security from the repurchase agreement. Securities sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortised cost or at fair value as appropriate. The proceeds from the sale of investments are reported as collateralised liabilities to either banks or customers.

The difference between the sale and repurchase consideration is recognised on an accrual basis over the period of the transaction and is included in interest income or expense.

Financial guarantee

In the ordinary course of business, the Bank enters into credit-related commitments which are recorded in off-balance-sheet accounts and primarily comprise guarantees, letters of credit, undrawn loan commitments and credit-card limits. Such financial commitments are recorded in the Bank's statement of financial position if and when they become payable.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value, being the premium received, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Financial guarantees are included within other liabilities.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(i) Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16. At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

Right-of-use assets

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments and
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date

The lease liability is measured at amortised cost using the effective interest method.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(j) Income tax

Income tax is based on taxable income for the year and comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(j) Income tax (continued)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which the carrying value of assets and liabilities is expected to be recovered or settled based on tax rates enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would arise from the manner in which the Bank expects, at the reporting date, to recover or settle the net carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the balance sheet. Deferred tax assets are recognised only to the extent that it is probable that they could be utilised as a tax benefit. At each balance sheet date, the Bank reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

(k) Property and equipment

Property and equipment are tangible items that are held for use in the supply of services or for administrative purposes.

Recognition and measurement

Property and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes the cost that is directly attributable to the acquisition of assets.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.
Land and assets under construction are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

	2021	2022
Buildings	33 years	33 years
IT equipment	5 years	5 years
Furniture and equipment	7-15 years	7-15 years
Motor vehicles	4 years	4 years
Other assets	10 years	10 years

Residual values are not taken into account. Depreciation methods and estimated useful lives are reassessed at each reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the income statement.

(l) Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairment. Expenditure on development activities is recognised as intangible assets if all of the requirements of IAS 38 “*Intangible Assets*” are met. Amortisation is provided on the straight-line basis over the estimated useful lives of intangible assets. Costs associated with maintaining intangible assets are recognised as an expense as incurred.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(l) Intangible assets (continued)

Intangible assets are amortised on a straight-line basis over their estimated useful lives as follows:

	2021	2022
Leasehold improvements	5 years	5 years
Software	5 years	5 years
Applicative software developed by the Bank	10 years	10 years
Licenses	5 years	5 years

(m) Impairment of non-financial assets

The recoverable amount of property and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

All non-financial assets previously impaired, are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation/depreciation, if no impairment had been recognised.

(n) Provisions for liabilities and charges

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions for liabilities and charges are maintained at a level which the Bank's Management Board believes is adequate to absorb probable future losses. The Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of various categories of transactions and other relevant factors. Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If an outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

(o) Employee benefits

Pension obligations

The Bank pays contributions to state-owned institutions and obligatory pension funds managed by privately owned management companies, in accordance with legal requirements or by individual choice. The Bank has no further payment obligations once the contributions have been paid. Pension contributions are recognised as staff costs in the income statement as they accrue.

Other employee benefits

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory termination benefits, are recorded as the net present value of the liability for defined benefits at the reporting date. The projected discounted present value unit method is used for the calculation of the present value of the liability, using discount rates that, in the opinion of the Bank's Management Board, best represent the time value of money.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(o) Employee benefits (continued)

Termination benefits

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(p) Equity

Issued share capital represents the nominal value of paid-up ordinary shares classified as equity and is denominated in HRK. The premium on the issued shares presents the surplus of the fair value above the nominal value of the issued shares.

Accumulated losses

Accumulated losses include losses from previous periods and loss for the year.

Loss per share

The Bank presents basic loss per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Treasury shares

Acquisition of treasury shares is carried out in the cases provided by the Companies Act, primarily in order to eliminate possible damage. Purchased treasury shares are stated at cost of purchase. The difference realized through the sale of treasury shares at the cost above the cost of acquisition is shown in favor of the capital gains account, and the difference realized below the cost of acquisition represents a capital loss.

(q) Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Bank enters into credit-related commitments which are recorded in off-balance-sheet records and primarily comprise guarantees, letters of credit and undrawn revolving loan commitments. Such financial commitments are recorded in the Bank's balance sheet if and when they become payable.

(r) Foreclosed assets

Foreclosed assets are stated at lower of the net recoverable value of property and the value of the related receivables. The Management Board has estimated that the carrying value of these assets approximates their market value.

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the cost of the related loans and advances and the current fair value of such assets. The Bank's intention is mainly to sell such assets, which, however, in certain limited cases may end up being used by the Bank.

Gains or losses on disposal are recognised in the income statement.

Notes to the financial statements (continued)

4. RISK MANAGEMENT

4.1 Internal assessment of risk of the Bank's operations

This section provides details regarding the Bank's exposure to risk and describes the methods used by the management to identify, measure and manage risks in order to safeguard capital. The most significant types of financial risks to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk.

For the most significant risks, the Bank adopted strategies and policies which include objectives and basic principles of risk assumption and management, define its risk profile and risk appetite and the compliance of the Bank's risk profile and the level of capital.

The Bank has established a risk management system appropriate to the nature, scope and complexity of the business, and the risk profile of the Bank, which includes an adequate strategy, policy and other internal regulations for risk management, organisational structure with defined authorities and responsibilities for risk management, risk management process and system of internal controls. The Bank regularly monitors and checks the risk management system and identifies and assesses the risks to which it is or expects to be exposed in its operations.

4.1.1 Credit risk

The Bank is subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties. Credit risk can be defined as a risk of financial loss of the Bank by a counterparty failing to discharge its obligation.

The Bank manages its credit risk exposure in accordance with the legislative requirements and regulations of the Croatian National Bank, as well as in accordance with its internal procedures. The Bank has established a system for monitoring its entire loan portfolio. The Credit Committee, the Supervisory Board and the Audit Committee are regularly informed of the quality of the portfolio. The analysis of the loan portfolio includes, at a minimum, an analysis of risk categories, overdue days and total exposure. Report on Credit Risk and Concentration Risk is prepared by the Risk Management Sector. Based on the analysis results, decisions are made on the Bank's strategy toward the counterparty, group of related parties, certain industry or economic sector, geographical region, risk product type, certain type of collateral, etc.

Risk Appetite Statement in the area of credit risk and Credit Risk Management Policy and Strategy is the main document, i.e. a framework for managing credit risk, which is complemented with procedures, instructions and other documents that define the following in more detail:

- credit risk appetite,
- clear lines of authority and responsibility,
- way of assumption, overcoming and management of credit risk,
- defining the credit process and establishing a system of control and reporting of credit risk exposure,
- methodology for determining credit worthiness, measurement and assessment of credit risk for the duration of the repayment / validity of risky products,
- procedures for controlling and monitoring credit risk, including the establishment of exposure limits,
- maximum exposure limits regarding risk products with common risk factors,
- procedures and measures for approval of deviations from the application of existing policies, in case such deviations should occur and
- stress testing as a preparation of the Bank for possible crisis situations.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit risk assessment

The process of credit risk assessment of placements comprises the following:

- debtors' creditworthiness,
- timely settlement of due instalments and
- collateral quality.

Creditworthiness is assessed for each loan application, and thereafter, as a minimum once a year subsequent to the delivery of the annual financial statements by the clients to which the Bank is exposed.

Monitoring of placements and contingent liabilities includes continuous assessment as to whether elements exist which would indicate a deterioration of the customer's financial position or an increase in risk due to the decrease of collateral value.

The Bank's effort, whenever possible, is to reconcile the customers' ability to pay in accordance with prevailing market conditions by way of overall restructuring of the debtors' operations or financial position. This should ultimately lead to a better settlement of liabilities to the Bank and improve the liquidity of customers in order to ensure business stability and sustainability over the long term.

In 2022, a long term negative impact of COVID-19 pandemic was replaced with escalation of Russian – Ukrainian conflict which indirectly affected the shortage of materials and the increase in the prices of raw materials and energy. Clients from manufacturing sector, sensitive to high energy costs and exposed to difficulties in global supply chains, were more affected by negative foreign shocks, while in the service sector these difficulties have been overcome thanks to strong demand after the lifting of most epidemiological measures.

Lower availability and higher prices of energy and materials, together with disruptions in supply chains resulted in high inflation and growing uncertainty for economic activity. The further deterioration of economic trends along with the increase in the cost of borrowing resulted with an increase in credit risk.

Investment decision-making is being reconsidered taking into account the mentioned risks and the increased uncertainty associated with them

The amount of loan loss provisions is determined considering the current and expected classification of credit exposures and credit parameters (Probability of Default, Loss Given Default and Exposure at Default) which, in accordance with IFRS 9 incorporate among other factors forward looking information and the expected evolution of the macro-economic scenario.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Classification of placements into risk categories

The risk classification process and classification criteria into risk categories and impairment for expected credit losses is defined by the CNB's Decision on the Classification of Exposure to Risk Groups and the Method of Determining Credit Losses and IFRS 9 *Financial instruments*.

The Bank classifies its loan exposures into two groups: small loan portfolio (group of related exposures below HRK 200 thousand) and individually significant exposures (group of related exposures exceeding HRK 200 thousand). Impairment of small loan portfolio exclusively depends on the ageing of overdue amounts, while impairment of individually significant exposures are individually assessed for impairment, as it was earlier described in Note 3 g) vi).

Almost all provisions for expected credit losses for the small loan portfolio are measured on a collective basis. The portfolio of gross exposures for which ECL provisions are measured on a collective basis as at 31 December 2022 amounted to HRK 1,270 thousands (2021: 3,117 thousands).

On initial recognition, financial assets subject to the expected credit loss model are classified in risk category A-1, except in the case of purchased or created financial assets less credit losses when the indicator POCI is added to the risk category.

The Bank reassesses the risk of each exposure subject to the expected credit loss model at least every 3 months, and possibly more frequently if necessary. The Bank assesses the credit quality of exposures throughout the contractual relationship and classifies those exposures into appropriate risk groups based on the following general classification criteria:

1) the debtor's creditworthiness,

2) regularity in the settlement of the debtor's obligations to the credit institution and other creditors represents the debtor's ability to fully settle its obligations to the Bank on the basis of principal, interest, fees and other grounds within the agreed terms,

3) the quality of the security for individual exposures, which is determined on the basis of market liquidity, documentation and the ability to exercise supervision by the bank, the possibility of forced collection and value in relation to the exposure based on placements / off-balance sheet liabilities.

Increased credit risk arises in the event of any of these conditions occurring and indicates the reclassification of exposures from A1 to A2:

- the borrower is late in payment of its overdue exposures by more than 30 days at the reporting date (based on materiality threshold), but is still within deadlines not exceeding 90 days (based on materiality threshold),,
- in the last 3 months, the borrower has been late in paying its overdue exposures more than 30 days (based on materiality threshold), and
- existence of "forbearance" measures.

In addition to the day of delays mentioned in the previous paragraph, the Bank prescribes additional indicators for large portfolio that are monitored and indicate increased credit risk. These are indicators of a qualitative and quantitative nature closely related to the client's business. The occurrence of any of the indicators indicates a reclassification of exposures.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Classification of placements into risk categories (continued)

The Bank considers that default status has occurred in the following conditions and refers to the reclassification of exposures to the minimum B1 risk category.

- the debtor has failed to fulfil its overdue obligation for more than 90 days under any significant credit obligation to the credit institution, its parent company or any of its subsidiaries
- the Bank considers it probable that the debtor will not fully meet its obligations to the Bank, its parent company or any of its subsidiaries without considering the possibility of collateral collection. In this regard, the Bank prescribes indicators for large portfolio that, in addition to the day of delay, indicate default status. These are indicators of a qualitative and quantitative nature closely related to the client's business.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Classification of placements into risk categories (continued)

After calculating the required impairment, the Bank allocates exposures to risk categories depending on the level of the calculated loss (in accordance with the CNB Regulations).

1. **Risk category A**

   A1 - newly approved exposures at the beginning of the contractual relationship and exposures where no significant increase in credit risk was identified since initial recognition (calculation of expected credit losses over a twelve-month period)

   A2 - exposures where a significant increase in credit risk was recognized since initial recognition (calculation of expected credit losses over the lifetime of the financial asset)

2. **Risk category B –** partly recoverable exposure which are classified into three subcategories, depending on the percentage of the impairment losses recognized in relation to the nominal carrying amount:

   B1 – when the level of impairment and provisions does not exceed 30% of the exposure amount;

   B2 – when the level of impairment and provisions amounts to more than 30% (minimum 30.01%) and not more than 70% of the exposure amount;

   B3 – when the level of impairment and provisions is more than 70% (minimum 70.01%) and less than 100% of the exposure amount.

3. **Risk category C** - non-recoverable placements with impairment at the amount of 100% exposure.

Exposures classified in risk groups A-1 and A-2 represent performing exposures, while exposures in risk groups B and C represent non performing exposures.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 3 consecutive months, or 12 months in case Forbearance activities were previously made on the defaulted obligor.
Once cured, the decision whether to classify in Stage 2 or Stage 1 depends on whether there has been a significant increase in credit risk since initial recognition.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Assets exposed to credit risk

The Bank's primary exposure to credit risk arises from loans and advances to customers, debt securities, amounts with the CNB, accounts with banks and receivables. In addition, the Bank is exposed to credit risk arising from off-balance-sheet items, through commitments arising from unused facilities and guarantees issued. Exposures to banks and other assets that are not presented at fair value are also considered a credit risk where the credit risk is not the primary risk of impairment. The table below presents the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is presented net of impairment for expected credit losses before the effect of mitigation through collateral agreements.

[HRK'000]	Notes	31 December 2021	31 December 2022
Amounts with the Croatian National Bank	6	221,238	214,554
Placements with other banks	8	476	-
Giro accounts with other banks	7	21,748	21,355
Financial assets at fair value through OCI	9	174,729	118,025
Loans and advances to customers	10	351,196	283,447
Other assets	13	169	94
Total assets exposed to credit risk		**769,556**	**637,475**
Guarantees		1,475	1,325
Credit lines		14,430	4,005
Total off-balance sheet exposure to credit risk	33	**15,905**	**5,330**
Total credit risk exposure		**785,461**	**642,805**

The total exposure to credit risk for financial assets at fair value through OSD, i.e. the nominal amount of exposure including the associated accrued interest amounts to HRK 131,395 thousand.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Collateral and other credit enhancements held

In terms of credit risk mitigation, the Bank's policy is to require suitable collateral to be provided by customers prior to the disbursement of approved loans. As a rule, the Bank approves a facility if there are two independent and viable repayment sources – cash flows generated by the borrower's activity and security instruments/collateral.

In general, a quality security instrument is an instrument with characteristics that provide a reasonable estimate of the Bank's ability to recover its receivables secured by that instrument (in case of its activation), through market or court mechanisms, within a reasonable period of time. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its regular review of the adequacy of the allowance for impairment losses.

Based on the applicable acts, the Bank's standard collateral instruments are, in addition to promissory notes and bills of exchange: bank guarantees, real estate and movable asset pledges/fiduciary rights, fiduciary/pledge rights on shares and shares in open-ended investment funds, fiduciary/pledge rights on equity interests in a company, assignment of receivables from companies and government, guarantees of guarantee agencies and cash deposits.

A significant part of the corporate portfolio is secured by mortgages over different types of property. The liquidity of the real-estate market has an effect on the recoverability of assets and its timing in cases where, due to borrowers' financial difficulties, the Bank relies on collateral for collection.

The valuation of property and movable assets is performed by certified assessors included in the list of the Bank's certified assessors. The collateral value is revised based on common business practices and market movements.
The collaterals undergo a valuation process within the bank, performed by specially trained staff. In addition to the collateral valuation process, eligibility is determined for each security instrument in accordance with internal regulation. All collaterals are subject to revaluation.

For exposures over HRK 200 thousands new evaluation is done by an independent evaluator at least every 3 years while additionally for exposures over HRK 1 million new internal evaluation is done on an annual basis. We have ensured adequate rotation of independent evaluators for both performing and non performing exposures meaning that after two sequential valuations done by the same evaluator, a different one must be appointed for the next evaluation. Also, the share of the value of the estimates of an individual evaluator must not exceed 35% of the total assets of the portfolio.

The revaluation method depends on the type of collateral and the exposure. For real estate which secures exposures to corporate acceptable methods are comparative, income and cost method. Comparative method is mostly used for residential and commercial properties, income method for properties which main purpose is rental activities while cost method is mostly used for properties with public/community purposes, non-rental and non-comparable residential properties.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Collateral and other credit enhancements held (continued)

The table below sets out the carrying amount and the value of identifiable collateral (mainly residential and commercial property) held against loans and advances to customers measured at amortised cost. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against:

[HRK'000]		2021		2022
	Carrying amount	Collateral	Carrying amount	Collateral
Loans and advances to customers at amortised cost				
Corporate				
Stage 1 and Stage 2	316,213	74,930	234,823	34,639
Stage 3	51,958	39,658	82,105	47,620
	368,171	114,588	316,928	82,259
Retail				
Stage 1 and Stage 2	1,039	-	2,159	1,923
Stage 3	4,858	2,551	1,255	50
	5,897	2,551	3,414	1,973
Total	**374,068**	**117,139**	**320,342**	**84,232**

The table below show the market value of collateral:

Type of collateral	Market value of collateral	
[HRK'000]	31 December 2021	31 December 2022
Commercial property	89,156	69,777
Cash deposits	7,704	2,144
Movable property	7,158	6,064
Other types of collateral	1,133	854
Residential property	11,988	5,393
Total	**117,139**	**84,232**

Assets obtained by taking possession of collateral

During 2022 there were no repossessions of collateral while the net book value of repossessed assets on 31st December 2022 amounts to HRK 517 thousand.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank’s operations (continued)

4.1.1 Credit risk (continued)

Collateral and other credit enhancements held (continued)

Restructuring of loan exposures

Restructuring of an exposure resulting with a decrease of initially contracted debtor's liabilities, is considered to be an evidence of loss. The Bank has set up a system for identifying and subsequent monitoring of restructured exposures. Restructured exposures which were classified in risk category A before restructuring, are at least classified to risk category B1. Restructured exposures which were classified in one of the sub-categories of the risk category B before restructuring are classified in that same risk category or lower after restructuring. Reclassifying a restructured exposure into a different risk category is performed immediately during the restructuring:

Restructured exposures may be classified into risk category A after a period of at least 12 months if, after the credit assessment, it is evident that the exposure meets the following conditions:

a) financial position of the client is based on reliable cash flows
b) regular repayment has been established in a period of minimum 12 months and during that period significant payments have been made (regular repayment means no debt due over 30 days)
c) there are no overdue outstanding claims in accordance with the repayment plan that is applied in accordance with the restructuring plan.

An overview of restructured balance sheet exposures by portfolio segment and by restructuring status for the year 2022 and 2021 is given below:

Amount of balance sheet exposures with forbearance measures

	31 December 2021			31 December 2022		
[HRK'000]	performing exposures with forbearance measures	non-performing exposures with forbearance measures	Total	performing exposures with forbearance measures	non-performing exposures with forbearance measures	Total
Retail	-	351	351	-	405	405
Corporate	-	12,853	12,853	-	27,271	27,271
Total	-	13,204	13,204	-	27,676	27,676

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

COVID related measures

COVID related measures

All COVID-19 moratoriums approved to both corporate and retail clients expired during the first quarter of 2021, after which a 12-month post-moratorium period started. In that period, in addition to a general overview of the client's business, the probability that the client will not be able to properly meet its obligations was assessed, taking into account the client's business, the relevant economic sector, but also the development of macroeconomic indicators in general. The assessment was carried out on the basis of analyses from reliable / reputable external sources, through expert assessment. Regular repayments of loan obligations generally continued neatly and the client's business was generally satisfactory with no COVID-related deterioration in the financial position compared to the period before COVID. Also, most epidemiological measures that limited client's business were abolished so from second quarter of 2022. there was no need to further monitor the impact of the COVID crisis on the portfolio.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis

The following table presents information on credit quality of financial assets measured at amortized cost, debt instruments at fair value through other comprehensive income and other assets. Unless otherwise indicated, for financial assets shown in the table, values are represented as gross book value. For credit lines and guarantees, the amounts in the table are obligatory or guaranteed amounts.

[HRK'000]	2022			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Amounts with the CNB				
Very low risk	214,554	-	-	214,554
ECL allowance	-	-	-	-
Carrying value	**214,554**	**-**	**-**	**214,554**
Giro accounts with other banks and cash in the cash register				
Very low risk	28,469	-	-	28,469
ECL allowance	(100)	-	-	(100)
Carrying value	**28,369**	**-**	**-**	**28,369**
Placements with other banks				
Very low risk	-	-	-	-
ECL allowance	-	-	-	-
Carrying value	**-**	**-**	**-**	**-**
Loans and advances to customers at amortised cost				
Very low risk	191,598	-	-	**191,598**
Low risk	22,783	-	-	**22,783**
Medium risk	115	22,486	-	**22,601**
High risk	-	-	46,363	**46,363**
Default	-	-	36,997	**36,997**
ECL allowance	(3,104)	(1,890)	(31,901)	**(36,895)**
Carrying value	**211,392**	**20,596**	**51,459**	**283,447**
Other assets at amortised cost				
Very low risk	92	-	-	**92**
Low risk	4	-	-	**4**
High risk	-	-	412	**412**
Default	-	-	17	**17**
ECL allowance	(2)	-	(429)	**(431)**
Carrying value	**94**	**-**	**-**	**94**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

[HRK'000]	2022			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
Very low risk	118,025	-	-	**118,025**
Low risk	-	-	-	**-**
Medium risk	-	-	-	**-**
ECL allowance – accrued interest	-	-	-	**-**
Carrying value	**118,025**	**-**	**-**	**118,025**
Corresponding ECL allowance, recognised in equity fair value reserve	(316)	**-**	**-**	**(316)**
Credit lines				
Very low risk	4,005	-	-	**4,005**
Low risk	-	-	-	-
Medium risk	-	-	-	**-**
ECL allowance	(102)	-	-	(102)
Carrying value	**3,903**	**-**	**-**	**3,903**
Guarantees				
Very low risk	-	-	-	**-**
Low risk	625	-	-	**625**
Medium risk	-	-	-	**-**
High risk	-	-	700	**700**
Default	-	-	-	**-**
ECL allowance	(5)	-	(14)	**(19)**
Carrying value	**620**	**-**	**686**	**1,306**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

[HRK'000]	2021			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Amounts with the CNB				
Very low risk	221,699	-	-	221,699
ECL allowance	(461)	-	-	(461)
Carrying value	**221,238**	**-**	**-**	**221,238**
Accounts with banks				
Very low risk	29,860	-	-	29,860
ECL allowance	(91)	-	-	(91)
Carrying value	**29,769**	**-**	**-**	**29,769**
Placements with other banks				
Very low risk	476	-	-	**476**
ECL allowance	-	-	-	**-**
Carrying value	**476**	**-**	**-**	**476**
Loans and advances to customers at amortised cost				
Very low risk	243,740	-	-	**243,740**
Low risk	21,695	-	-	**21,695**
Medium risk	-	51,817	-	**51,817**
High risk	-	-	33,070	**33,070**
Default	-	-	23,746	**23,746**
ECL allowance	(2,422)	(2,603)	(17,847)	**(22,872)**
Carrying value	**263,013**	**49,214**	**38,969**	**351,196**
Other assets at amortised cost				
Very low risk	171	1	-	**172**
Past due impaired	-	-	2,935	**2,935**
ECL allowance	(3)	-	(2,935)	**(2,938)**
Carrying value	**168**	**1**	**-**	**169**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

[HRK'000]	2021			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
Very low risk	174,730	-	-	**174,730**
Low risk	-	-	-	**-**
Medium risk	-	-	-	**-**
ECL allowance – accrued interest	(1)	-	-	**(1)**
Carrying value	**174,729**	**-**	**-**	**174,729**
Corresponding ECL allowance, recognised in equity fair value reserve				
Credit lines				
Very low risk	14,429	-	-	**14,429**
Low risk	-	-	-	-
Medium risk	-	1	-	**1**
ECL allowance	(252)	-	-	(252)
Carrying value	**14,177**	**1**	**-**	**14,178**
Guarantees				
Very low risk	-	-	-	**-**
Low risk	625	-	-	**625**
Medium risk	-	-	-	**-**
High risk	-	-	850	**850**
Default	-	-	-	**-**
ECL allowance	(5)	-	(17)	**(22)**
Carrying value	**620**	**-**	**833**	**1,453**

The credit risk of financial assets and credit lines and guarantees is presented through the internal credit risk classification.

Internally, the Bank classifies exposures to the following risk categories:

Very low risk - the client is timely in servicing its liabilities in last 12 months and the client has not been on watch list for the last 12 months,

Low risk – the client is timely in servicing its liabilities at the reporting date, but in the last 12 month the client has been classified in A2 or the client has been on Monitoring list,

Medium risk – the client has days of delays over 30 days but it is still classified as performing at the reporting date or the client is timely in servicing its liabilities at the reporting date but in the last 12 months the client had days of delays over 90 or it was restructured,

High risk – NPL exposures which has not exceeded 60 days of delays in the last 12 months,

Default – NPL exposures.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

The following table sets out information about the overdue status of loans and advances to customers at amortised cost in Stages 1, 2 and 3:

	2022				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost – gross carrying amount					
Current	214,496	22,452	68,571	-	**305,519**
Overdue < 30 days	-	34	219	-	**253**
Overdue >30<90 days	-	-	8	-	**8**
Overdue > 90	-	-	14,562	-	**14,562**
	214,496	**22,486**	**83,360**	**-**	**320,342**

	2021				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost – gross carrying amount					
Current	265,433	51,817	40,890	-	**358,140**
Overdue < 30 days	2	-	136	-	**138**
Overdue >30<90 days	-	-	-	-	**-**
Overdue > 90 days	-	-	15,790	-	**15,790**
	265,435	**51,817**	**56,816**	**-**	**374,068**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Input data, assumptions and techniques used to estimate impairment

When determining whether the risk of default on a financial instrument has increased significantly from the initial recognition, the Bank takes into account both quantitative and qualitative information and expert credit assessments. The criteria for determining a significant increase in credit risk are set for the purpose of a proper allocation of exposure from Stage 1 to Stage 2. Throughout the contractual relationship, the Bank assesses credit exposure quality and classifies those exposures into appropriate risk groups on the basis of the general classification criteria:

- creditworthiness of the debtor,
- the timeliness in settling liabilities towards the credit institution and other creditors represents the debtor's ability to fully settle its liabilities towards the Bank including principal, interest, commissions and other liabilities within the agreed terms,
- the quality of the collateral instruments determined on the basis of marketability, documentation and the possibility of exercising control by the bank, the possibility of enforcement and value in relation to exposure / off-balance sheet liabilities.

Credit risk is considered to have increased considerably from the initial recognition if any of the following occurs:

- at the reporting date the debtor is past due for more than 30 days (based on materiality threshold), but is still within a period not exceeding 90 days and
- at the reporting date the borrower is timely in settling its liabilities. Days past due have not exceeded 30 days but exposure has been past due for more than 30 days in the last 3 months, not exceeding 90 days,
- Existence of "forbearance" measures.

Except for days past due, the Bank uses qualitative indicators to determine the increased credit risk pursuant to the internal credit risk monitoring system for the purpose of transitioning between "stages".

Macroeconomic adjustment

Measurement of financial assets reflects the best estimate of the effects of future conditions, and in particular the economic conditions affecting forward-looking probabilities of the non-performance of liabilities and losses due to the non-fulfillment of obligations. In order for future information and macroeconomic scenarios to be adequately included, the Bank prescribed the manner and the conditions of adjustments of the calculated PD and LGD to macroeconomic expectations. The macroeconomic scenario is determined on the basis of adjusted publicly available information.

The Bank monitors Macroeconomic Developments primarily through the CNB's releases and the publication Macroeconomic Forecasts and Trends. Major macroeconomic indicators which are monitored are GDP, consumer price index and employment.

For the purpose of adjusting the calculated PD to macroeconomic expectations, only GDP trends are considered, as the most significant macroeconomic variable. For the calculation of ECL, three macroeconomic scenarios are considered: baseline, positive and negative. Weights of each scenario are the following:

Scenario	2021		2022	
	Weight	Real GDP	Weight	Real GDP
Baseline	60%	6,8	50%	5,5
Positive	15%	7,5	10%	5,6
Negative	25%	4,5	40%	2,7

Within the scenarios, credit risk parameters are stressed based on the changes in macroeconomic variables.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Input data, assumptions and techniques used to estimate impairment (continued)

Macroeconomic adjustment (continued)

For the purpose of macroeconomic adjustment of the LGD, GDP is also considered as the main macroeconomic factor, but also the main indicators and risk drivers in the relevant economic sectors may be included. The LGD is adjusted for the estimated impact of macroeconomic developments represented by GDP on the probability of collection or business results of customers, using the same scenarios with the same probabilities as in the calculation of macroeconomic adjustment of PD.

Forward looking component does not have significant impact on ECL amount. The sensitivity analysis for +/-1% GDP change results in change of -/+0.05% in ECL.

Modification of financial assets

In some situations, change in conditions or modifications in the contracted cash flow may result in termination of the recognition of an existing financial asset.

When a modification of a financial asset results in cessation of recognition of an existing financial asset and subsequent recognition of a modified financial assets, the modified financial asset is viewed as a "new" financial asset.

Modification or change in contractual cash flows of financial assets occurs when re-contracting or as another change in contractual cash flows between the first recognition and maturity of the financial asset. Changes to the contractually agreed terms must be legally binding and enforceable.

When re-contracting or any other changes in contractual cash flows occur, during the period between initial recognition and maturity of the financial asset, the Risk Management Division / Credit Risk Management Department is obligated to determine whether there are any modifications and whether the modifications are so significant that the existing financial asset is derecognised and a new financial asset is recognised.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Expected Credit Loss Measurement (ECL)

Key figures for measuring expected credit loss are the following variables: probability of default (PD); loss given default (LGD)

Expected Credit Losses (ECL) in Stage 1 are calculated by multiplying the 12-month PD with LGD and the value of the exposure to credit risk at the reporting date. The ECL for the entire lifetime is calculated by multiplying the PD for its entire lifetime with LGD and the carrying amount of exposure to credit risk at the reporting date. Lifetime ECL is calculated by multiplying the lifetime PD with LGD and the gross book value of exposure at the reporting date.
The following definitions apply to PD and LGD:

- PD (likelihood of a non-fulfilment of obligations): the probability of a transition from performing status to non-performing status over an one-year period,
- LGD (loss due to the non-fulfilment of obligations): percentage of loss in case of non-performing of obligations.

The table below shows the movement of expected credit losses for Loans and advances to customers valued at amortized cost:

[HRK'000]	2022				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost					
As at 1 January 2022	**2,422**	**2,603**	**17,847**	**-**	**22,872**
Transfer to expected credit losses in 12 months	92	(3)	(89)	-	**-**
Transfer to expected credit losses during lifetime	(1)	134	(133)	-	**-**
Transfer to non-performing status	(312)	(1,187)	1,499	-	**-**
Net remeasurement of loss allowance	903	343	15,804	-	**17,050**
Collected impaired interest	-	-	(2,089)	-	**(2,089)**
Write-offs and other movements	-	-	(938)	-	**(938)**
As at 31 December 2022	**3,104**	**1,890**	**31,901**	**-**	**36,895**

Expected credit losses for Loans and advances to customers measured at amortized cost has been increased by HRK 14,023 thousand. Majority of this general increase is a result of a significant ECL increase for Stage 3 exposures (mainly 2 large exposures). Exposures in question were classified as Stage 2 exposures prior to the transfer thus the decrease recorded amongst Stage 2 exposures during 2022. Changes among Stage 1 exposures have no significant reasoning behind but are a result of regular final repayments of Stage 1 exposures. During 2022 there were no transactions which would include sale of NPLs.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Expected Credit Loss Measurement (ECL) (continued)

[HRK'000]	2021				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost					
As at 1 January 2021	**6,591**	**1,383**	**33,238**	**2,886**	**44,098**
Transfer to expected credit losses in 12 months	11	(11)	-	-	-
Transfer to expected credit losses during lifetime	(60)	67	(7)	-	-
Transfer to non-performing status	(8)	(91)	99	-	-
Net remeasurement of loss allowance	(4,113)	1,254	2,576	-	**(283)**
Collected impaired interest	-	-	(3,209)	-	**(3,209)**
Write-offs and other movements	1	1	(14,850)	(2,886)	**(17,734)**
As at 31 December 2021	**2,422**	**2,603**	**17,847**	**-**	**22,872**

The table below shows the movement of expected credit losses of financial assets at fair value through other comprehensive income recognized in equity:

[HRK'000]	2022			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
As at 1 January 2022	269	-	-	269
Net remeasurement of loss allowance	(247)	-	-	(247)
Derecognised financial assets	(21)	-	-	(21)
Write off	-	-	-	-
As at 31 December 2022	**1**	**-**	**-**	**1**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Expected Credit Loss Measurement (ECL) (continued)

[HRK'000]	2021			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
As at 1 January 2021	**460**	**-**	**-**	**460**
Net remeasurement of loss allowance	15	-	-	15
Derecognised financial assets	(206)	-	-	(206)
Write off	-	-	-	-
As at 31 December 2021	**269**	**-**	**-**	**269**

Financial assets at fair value through other comprehensive income by external risk classification

The table below provides information on the credit quality of a financial asset at fair value through other comprehensive income, using the external ratings - Fitch Ratings.

[HRK'000]	2021	2022
Government bonds and treasury bills	**174,721**	**118,018**
AAA	-	-
AA-	19,925	10,025
A+	25,089	14,241
BBB+	-	93,752
BBB	129,707	-
Corporate bonds	**8**	**7**
No rating	8	7
Total	**174,729**	**118,025**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk

Market risk is defined as the risk that the fair value or future cashflows of a financial instrument will fluctuate as a result of changes in market prices. It includes: interest rate risk, foreign exchange risk and positional risk.

The Risk Management Sector calculates: market risk exposure, market risk limits and capital requirements for exposure to market risks.

The Risk Management Sector reports daily to the Treasury Department on the usage of market risk exposure limits and reports to the Asset and Liability Management Committee monthly.

4.1.2.1 Foreign exchange risk

Foreign exchange operations of the Bank are subject to risks due to changes in inter-currency relationships, as well as changes in foreign currency rates in relation to the domestic currency. The Bank monitors changes in the foreign currency sub-ledger on a daily basis by monitoring the relationship between the financial assets and liabilities in foreign currency, in accordance with CNB regulations on the open foreign exchange position.

The Bank uses the open foreign exchange position (gap analysis) to measure and report exposure to currency risk in accordance with the methodology prescribed by the Croatian National Bank. The operational management of the foreign currency position within the prescribed limits is the responsibility of the Treasury Department, which has the ability to propose measures to eliminate the currency gap through a reduction or increase in placements and deposits with a currency clause, selling or buying currency or through arbitration - selling one currency for another.

The Risk Management Sector controls the compliance with limits on a daily basis, and monthly reports to the Asset and Liability Management Committee on foreign exchange risk exposure.

The exposure in currencies other than EUR and HRK is below 5% of assets per single currency. Banks assets in other currencies include cash and deposits with other banks. Regarding other currencies, most of them refer to deposits in US dollar and swiss francs.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.1 Foreign exchange risk (continued)

Foreign exchange risk analysis

The Bank manages currency risk through a range of measures, including a currency clause, which has the same effect as denominating assets in HRK in other currencies.

[HRK'000]	31.12.2022				
	HRK	EURO linked	Euro	Other foreign currencies	**Total**
ASSETS					
Amounts with the Croatian National Bank	156,962	-	57,592	-	214,554
Cash and accounts with banks	2,978	-	12,191	13,200	28,369
Placements with other banks	-	-	-	-	-
Financial assets at fair value through OCI	76,713	7,396	33,916	-	118,025
Loans and advances to customers	4,784	64,859	213,804	-	283,447
Property and equipment	13,600	-	-	-	13,600
Intangible assets	4,984	-	-	-	4,984
Other assets	1,507	-	22	-	1,529
TOTAL ASSETS	**261,528**	**72,255**	**317,525**	**13,200**	**664,508**
LIABILITIES					
Deposits from customers	145,199	-	363,298	12,888	521,385
Deposits and borrowings from banks	2,086	4,583	-	-	6,669
Subordinated debt	-	-	22,604	-	22,604
Provisions for liabilities and charges	1,759	-	-	-	1,759
Other liabilities	13,518	3	249	-	13,770
Deferred tax liability	-	-	-	-	-
TOTAL LIABILITIES	**162,562**	**4,586**	**386,151**	**12,888**	**566,187**
CURRENCY GAP	**98,965**	**67,669**	**(68,626)**	**312**	**98,321**

[000 HRK]	31.12.2021				
	HRK	EURO linked	Euro	Other foreign currencies	**Total**
ASSETS					
Amounts with the Croatian National Bank	221,238	-	-	-	221,238
Cash and accounts with banks	5,053	-	9,718	14,998	29769
Placements with other banks	-	-	476	-	476
Financial assets available for sale	107,685	10,445	56,599	-	174,729
Loans and advances to customers	10,665	75,439	265,092	-	351,196
Property and equipment	14,906	-	-	-	14,906
Intangible assets	6,767	-	-	-	6,767
Other assets	13,805	-	47	-	13,852
TOTAL ASSETS	**380,119**	**85,884**	**331,932**	**14,998**	**812,933**
LIABILITIES					
Deposits from customers	162,590	-	405,191	14,707	582,488
Deposits and borrowings from banks	1,640	5,737	45,108	-	52,485
Subordinated debt	20,000	-	22,552	-	42,552
Provisions for liabilities and charges	3,032	7	-	-	3,039
Other liabilities	16,470	125	304	-	16,899
Deferred tax liability	75	-	-	-	75
TOTAL LIABILITIES	**203,807**	**5,869**	**473,155**	**14,707**	**697,538**
CURRENCY GAP	**176,312**	**80,015**	**(141,223)**	**291**	**115,395**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.1 Foreign exchange risk (continued)

Foreign exchange risk analysis (continued)

The sensitivity analysis includes all foreign currency denominated items and adjustments of foreign currency openness at the year-end. The amount of adjustment is based at 10% change in foreign currency rates against the local currency HRK. A positive number indicates an increase profit in case of the HRK 10% depreciation against the relevant currency. In case of HRK 10% appreciation against the relevant currency, there would be an equal impact but with an opposite sign.

in thousands HRK		31 December 2022
	EUR	**OTHER**
Open FX position	142	292
Impact +10%	14	29
Impact -10%	(14)	(29)

in thousands HRK		31 December 2021
	EUR	**OTHER**
Open FX position	578	278
Impact +10%	58	28
Impact -10%	(58)	(28)

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.2 Price risk

Price risk is the risk of loss arising from changes in the price of a financial instrument. Primary exposure to positional risk comes from shares in investment funds and debt securities at fair value through other comprehensive income. Shares in investment funds mainly relate to cash funds where no significant fluctuations in value. The Bank manages the risks arising from the change in their fair value by continuously following changes in share price and investment returns and reports to the ALCO. At least once a year Market and Operational Risk department and Risk Control department conducts stress testing on fixed income securities portfolio. Stress testing includes at least the sensitivity analysis and relates to the impact of significant changes in interest rates on portfolio value and profit / loss.

The following tables show sensitivity of Bank portfolio of securities with fixed interest rate (FVOCI) on increase of interest rates and the impact on the overall portfolio in case of a shift in market interest rates by 100 bp.

in thousands HRK		**31 December 2022**
Currency	**Changes in interest rates**	**Sensitivity on portfolio of securities with fixed interest rate (FVOCI)**
EUR	100 bp	(2,787)
HRK	100 bp	(2,869)

in thousands HRK		**31 December 2021**
Currency	**Changes in interest rates**	**Sensitivity of portfolio of securities with fixed interest rate (FVOCI)**
EUR	100 bp	(4,611)
HRK	100 bp	(4,699)

4.1.2.3 Interest rate risk

The Bank's operations are subject to the risk of loss which arises from potential interest rate fluctuations which affect positions in the Bank's records.

In line with prudential interest rate risk management, the Bank defines responsibilities in accordance with generally accepted standards and defined limits for maintaining an acceptable level of economic capital and achieving satisfactory financial results.

For placements with corporate clients, the majority of placements and deposits are initially contracted at variable interest rate in accordance with the Bank's policies, except when, for competitive reasons, fixed interest rates are contracted.

The model for measuring and monitoring interest rate risk exposure measurements includes two basic measures:

1) A measure of the economic value of equity (EVE), that is, the change in the net present value of interest rate sensitive instruments over their remaining term as a result of changes in interest rates. The change in EVE is the change in the net present value of all cash flows arising from assets, liabilities and off-balance sheet items in the Bank's ledger resulting from the change in interest rates, assuming that all positions in the Bank's book expire. The Bank determines the change in economic value using regulatory shock of 200bp and six interest rate shock scenarios.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.3 Interest rate risk (continued)

2) A measure of profit or a measure of change in expected future profitability over a period of time as a result of changes in interest rates. The change in net interest income using the standard parallel shift is calculated by approximating changes in net interest income such that each net position is multiplied by a corresponding change in the interest rate.

Measure of the economic value of capital

The Bank uses eight interest rate shock scenarios to measure the economic value of equity (EVE):

1. regulatory shock + 200 bp
2. regulatory shock - 200 bp
3. parallel shock up
4. parallel shock down
5. steepener shock, short-term rates down and long-term rates up
6. flattener shock, short-term rates up and long-term rates down
7. shock of rising short-term interest rate
8. shock of falling short-term interest rates.

With the entry into force of the Decision on Supervisory Reports of Credit Institutions in March 2021, the Bank fully adjusted the calculation of interest rate risk exposure in the book of positions that are not traded according to provisions of the Decision. With reporting date 31.03.2021. The Bank has started reporting on interest rate risk exposure in accordance with the provisions of the Decision on Supervisory Reports of Credit Institutions.

Profit measure

A change in net interest income is a short-term measurement of the effect of a change in interest rates on net interest income and net interest margin over a 12-month period. The analysis assumes a parallel shift of the yield curves. The Bank uses a regulatory shock of +/- 200 bb for all currencies to calculate the impact on net interest income. The Bank defines the limits on the results of the standard simulation of net interest income in relation to the planned net interest income for the current year and the planned net interest margin.

The results of the Internal interest rate risk exposure in the banking book are presented to the ALCO Committee quarterly. In the event that internal limits are exceeded, the Market and Operational Risks and Risk Control Department reports to ALCO on the internal limits being exceeded and proposes measures to reduce the Bank's exposure to interest rate risk.

Interest rate risk stress test

The Market and Operational Risk and Risk Control Department performs stress test at least once a year. Given that changes in interest rate can have adverse effects on earnings and their economic value, the Bank performs stress tests taking into account the earnings perspective, i.e. the effect of stress events on the net interest income, and the economic value perspective, i.e. the effect of stress events on the Bank's economic value. The results of stress tests are presented at the meeting of the Banks' Asset and Liability Management Committee.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.3 Interest rate risk (continued)

Interest rate risk stress test (continued)

The following table shows sensitivity of Bank equity (economic value) to reasonable interest rate movements (parallel shift), on condition that all other variables are constant. The sensitivity presented below is prepared based on methodology used to prepare sensitivity report "EVK" as reported to regulator (Croatian National Bank). From 31 March 2021 CNB changed methodology for reporting on exposure on sensitivity of equity value to interest rate movements.

in HRK '000		**31 December 2022**
	Sensitivity of equity value to interest rate movements	**% of regulatory capital**
Regulatory +200 bp	(2,545)	(2.3%)
Regulatory -200 bp	1,521	1.4%

in HRK '000		**31 December 2021**
	Sensitivity of equity value to interest rate movements	**% of regulatory capital**
Regulatory +200 bp	(4,441)	(3.5%)
Regulatory -200 bp	889	0.7%

Due to changes in interest rate risk sensitivity calculation methodology is not practicable to disclose comparative information.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

Interest rate gap analysis

The following tables present the Bank's financial assets and financial liabilities analysed according to repricing periods determined as the earlier of the remaining contractual maturity and the contractual repricing, expect for demand deposits which are presented in category *from 3 months to 1 year.*

[HRK'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Non-interest bearing*	Total	31 December 2022 Fixed interest rate
FINANCIAL ASSETS								
Amounts with the Croatian National Bank	214,459	95	-	-	-	-	**214,554**	95
Cash and accounts with banks	8,470	-	-	-	-	19,899	**28,369**	-
Placements with other banks	-	-	-	-	-	-	**-**	-
Securities	540	115	14,551	67,290	48,899	(13,370)	**118,025**	131,395
Loans and advances to customers	47,427	80,510	191,459	1,128	113	(37,190)	**283,447**	2,069
Other assets	94	-	-	-	-	-	**94**	-
TOTAL FINANCIAL ASSETS	**270,990**	**80,720**	**206,010**	**68,418**	**49,012**	**(30,661)**	**644,489**	**133,559**
FINANCIAL LIABILITIES								
Deposits from customers	203,717	46,084	205,258	22,484	34,038	9,804	**521,385**	282,168
Deposits and borrowings from banks	303	301	4,390	-	-	1,675	**6,669**	-
Subordinated debt	-	-	-	22,604	-	-	**22,604**	22,604
Provisions for liabilities and expenses	-	-	-	-	-	1,759	**1,759**	-
Other liabilities	-	-	-	-	-	13,770	**13,770**	-
Deferred tax liability	-	-	-	-	-	-	**-**	-
TOTAL FINANCIAL LIABILITIES	**204,020**	**46,385**	**209,648**	**45,088**	**34,038**	**27,008**	**566,187**	**304,772**
INTEREST GAP	**66,970**	**34,335**	**(3,638)**	**23,330**	**14,974**	**(57,669)**	**78,302**	**(171,213)**

*position includes impairment of income-generating placements, due principal of income-generating placements and accrued interest and interest impairment

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

Interest rate gap analysis (continued)

[HRK'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Non-interest bearing*	Total	31 December 2021 Fixed interest rate
FINANCIAL ASSETS								
Amounts with the Croatian National Bank	59,555	36,731	-	-	-	124,952	**221,238**	-
Cash and accounts with banks	7,082	-	-	-	-	22,687	**29,769**	-
Placements with other banks	476	-	-	-	-	-	**476**	476
Securities	540	5,160	217	79,416	80,344	9,052	**174,729**	165,677
Loans and advances to customers	66,637	108,390	220,317	1,543	427	(46,118)	**351,196**	2,529
Other assets	169	-	-	-	-	-	**169**	-
TOTAL FINANCIAL ASSETS	**134,459**	**150,281**	**220,534**	**80,959**	**80,771**	**110,573**	**777,577**	**168,682**
FINANCIAL LIABILITIES								
Deposits from customers	209,747	45,473	252,259	22,381	41,058	11,570	**582,488**	298,305
Deposits and borrowings from banks	84	45,413	5,926	-	-	1,062	**52,485**	45,106
Subordinated debt	-	-	-	42,552	-	-	**42,552**	42,552
Provisions for liabilities and expenses	-	-	-	-	-	3,039	**3,039**	-
Other liabilities	-	-	-	-	-	16,899	**16,899**	-
Deferred tax liability	-	-	-	-	-	75	**75**	-
TOTAL FINANCIAL LIABILITIES	**209,831**	**90,886**	**258,185**	**64,933**	**41,058**	**32,645**	**697,538**	**385,963**
INTEREST GAP	**(75,372)**	**59,395**	**(37,651)**	**16,026**	**39,713**	**77,928**	**80,039**	**(217,281)**

*position includes impairment of income-generating placements, due principal of income-generating placements and accrued interest and interest impairment

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk

Liquidity risk arises through the general funding of the Bank's activities and in the management of its positions. The main categories of liquidity risk to which the Bank is exposed are:

- inability to settle liabilities as a result of the maturity gap between cash inflow and outflow - structural liquidity risk, and
- risk of being unable to sell or acquire liquid instruments on the market in an appropriate time frame and at a reasonable price - financial instruments liquidity risk.

Liquidity risk management is conducted in compliance with regulatory requirements and is defined by the following internal acts:

- Liquidity Risk Management Policy and Strategy,
- Procedure for stress testing
- Procedure for the Bank's Liquidity Management,
- Plan for Liquidity crisis.

Internal acts are proposed by the Market and Operational Risks and Risk Control Department and approved by the Bank's Management Board. In accordance with changes, the Market and Operational Risks and Risk Control Department proposes revisions of internal acts.

The key purpose of the liquidity policy is to ensure that the Bank operates in a way to achieve an optimal balance between the Bank's safety and shareholders return on investment. The framework for appropriate liquidity risk management comprises the following: liquidity management strategy approved by the Management Board within budget and strategic plans; efficient supervision by the Asset and Liability Management Committee and the Management Board; clearly defined responsibilities and operations in line with agreed limits; management of assets and liabilities by matching their maturities; an established evaluation system of all current and future inflows and outflows; liabilities structure management, specifically in monitoring the concentration of large deposits; sustained development of liquidity stress tests; assessment of access to financial markets and available funds under usual and stressed conditions; and a crisis plan.

As part of its business activities the Bank monitors liquidity risk and complies with relevant regulations, the following measures are part of liquidity risk management:

- monitoring that minimum 17% of foreign currency liabilities is held as short-term foreign currency assets,
- monitoring liquidity reserve requirements in HRK,
- monitoring liquidity reserve requirements in foreign currency,
- liquidity coverage ratio (proportion of highly liquid assets held by the Bank)
- net stable funding ratio.

The purpose of managing liquidity funds is the compliance with the regulatory minimum by maintaining the minimum cost of liquidity funds.

The Bank uses the following models for liquidity risk measurement:

- financial and structural indicators,
- deposit concentration,
- cash flow notice and projection system, and
- liquidity stress tests.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

The Bank raises funds using a broad range of instruments including deposits, borrowings, subordinated debt and share capital. The Bank continuously assesses its liquidity risk by identifying and monitoring changes in the level of funding required to achieve business goals and strategic targets. Diverse funds enable flexibility, decrease dependence on a single source of funding and enable straightforward management of financing costs.

Liquidity stress test

Liquidity stress tests are performed based on the analysis of different scenarios, i.e. the assessment of effects of simultaneous changes in several different factors of risk on the financial position of the Bank in clearly defined stress circumstances. In order to prepare for a possible impact on liquidity, the Bank performs liquidity stress tests adapted to business size and characteristics, strategic goals and plans, the internal Bank's organization and its environment, to ensure sufficient liquidity funding. The aim of the liquidity stress test is to recognise a situation and to prepare the Bank's relevant functions for a prompt reaction in the case of a liquidity crisis. The development of the liquidity stress test represents the Bank's internal policy and good practice for liquidity management. The stress test relates to the change in value of certain parameters that have an impact on the financial and liquidity position of the Bank and determining the effects of said impact of these parameters on the entire business.

The stress scenario is arbitrarily selected and approved by the Market and Operational Risks and Risk Control Department. Two scenarios are selected, at a minimum, one including the Bank's specific factors and the other including market factors. Different combinations of the factors are possible as well.

The selection of scenarios is usually affected by:
- current market movements;
- other movements historically significant for the Bank's liquidity;
- future predictions based on available information significant for the Bank's liquidity.

Upon selection of the stress scenario, the Treasury Department analyses the scenario or performs the sensitivity analysis, depending on whether one or more factors on the financial position of the Bank are analysed. The Market and Operational Risks and Risk Control Department and the Treasury Sector report the results of the stress tests to the Asset and Liability Management Committee.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

Maturity analysis

The tables below present the assets and liabilities of the Bank based on the remaining contractual maturity as of 31st December 2022 and 31st December 2021. Despite the maturity mismatch of assets and liabilities, the expected cash flows on a particular financial asset and liability differ significantly from the contractual cash flows. Obligatory reserve is presented in the category up to one month and not according to the maturity of the related liabilities. The Bank expects that demand deposits will not significantly oscillate and will not be withdrawn immediately. Assets and liabilities presented below are based on the Bank's carrying values.

[HRK'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	31 December 2022 Total
FINANCIAL ASSETS						
Amounts with the Croatian National Bank	214,554	-	-	-	-	**214,554**
Placements with other banks	-	-	-	-	-	**-**
Cash and accounts with banks	28,369	-	-	-	-	**28,369**
Securities	540	115	14,454	19,062	83,854	**118,025**
Loans and advances to customers	1,515	9,168	125,308	79,201	68,256	**283,447**
Other assets	326	215	262	-	729	**1,529**
TOTAL FINANCIAL ASSETS	**245,304**	**9,498**	**140,024**	**98,263**	**171,418**	**664,508**
FINANCIAL LIABILITIES						
Deposits from customers	238,926	49,340	209,957	7,394	15,768	**521,385**
Deposits and borrowings from banks	2,164	284	1,082	1,829	1,311	**6,669**
Subordinated debt	-	-	-	22,604	-	**22,604**
Other liabilities	1,783	316	344	676	10,650	**13,770**
Provisions for liabilities and expenses	5	1,319	114	158	163	**1,759**
Deferred tax liability	-	-	-	-	-	**-**
TOTAL FINANCIAL LIABILITIES	**242,878**	**51,261**	**211,497**	**32,660**	**27,891**	**566,187**
MATURITY GAP	**2,426**	**(41,763)**	**(71,473)**	**65,603**	**143,527**	**98,321**
OFF- BALANCE SHEET						
Guarantees	375	-	775	175	-	1,325
Overdrafts	-	-	4,005	-	-	4,005
TOTAL OFF-BALANCE SHEET	**375**	**-**	**4,780**	**175**	**-**	**5,330**

Although there is significant presentational liquidity gap for the period up to one year, the Bank does not expects that demand deposits to be withdrawn immediately. Furthermore, the Bank can adjust the liquidity position by selling financial assets with maturity above 1 year.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

[HRK'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	31. December 2021 Total
FINANCIAL ASSETS						
Amounts with the Croatian National Bank	221,238	-	-	-	-	**221,238**
Placements with other banks	476	-	-	-	-	**476**
Cash and accounts with banks	29,769	-	-	-	-	**29,769**
Securities	540	5,177	217	61,471	107,325	**174,730**
Loans and advances to customers	18,637	6,012	102,750	117,008	106,790	**351,197**
Other assets	6,309	191	204	-	7,148	**13,852**
TOTAL FINANCIAL ASSETS	**276,969**	**11,380**	**103,171**	**178,479**	**221,263**	**791,262**
FINANCIAL LIABILITIES						
Deposits from customers	248,765	46,509	242,730	23,279	21,205	**582,488**
Deposits and borrowings from banks	1,445	45,390	1,079	2,351	2,220	**52,485**
Subordinated debt	-	-	-	42,552	-	**42,552**
Other liabilities	3,135	1,083	1,742	2,881	8,058	**16,899**
Provisions for liabilities and expenses	21	2,432	10	426	150	**3,039**
Deferred tax liability	75	-	-	-	-	**75**
TOTAL FINANCIAL LIABILITIES	**253,441**	**95,414**	**245,561**	**71,489**	**31,633**	**697,538**
MATURITY GAP	**23,528**	**(84,034)**	**(142,390)**	**106,990**	**189,630**	**93,724**
OFF- BALANCE SHEET						
Guarantees	1,475	-	-	-	-	1,475
Overdrafts	14,430	-	-	-	-	14,430
TOTAL OFF-BALANCE SHEET	**15,905**	**-**	**-**	**-**	**-**	**15,905**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

Analysis of undiscounted cash flows of financial liabilities by remaining contracted amounts.

31 December 2022	Less than 1 month	1 – 3 months	3 – 12 months	1 – 3 years	Over 3 years	Undiscounted	Carrying value
Deposits to customers	238,926	49,342	210,094	7,439	16,004	521,805	521,385
Deposits and borrowings from banks	2,164	284	1,082	1,938	1,438	6,906	6,669
Subordinated debt	-	-	-	24,294	-	24,294	22,604
Provisions for liabilities and charges	5	1,319	114	158	163	1,759	1,759
Other liabilities	1,783	318	344	675	10,650	13,770	13,770
Deferred tax liabilities	-	-	-	-	-	-	-
Total undiscounted financial liabilities	**242,878**	**51,263**	**211,634**	**34,504**	**28,255**	**568,534**	**566,187**
Off Balance-sheet	**375**	**-**	**4,780**	**175**	**-**	**5,330**	**5,330**

31 December 2021	Less than 1 month	1 – 3 months	3 – 12 months	1 – 3 years	Over 3 years	Undiscounted	Carrying value
Deposits to customers	248,769	46,513	242,830	23,339	21,292	582,743	582,488
Deposits and borrowings from banks	1,445	45,435	1,079	2,493	2,436	52,888	52,485
Subordinated debt	-	-	-	45,663	-	45,663	42,552
Provisions for liabilities and charges	21	2,432	10	426	150	3,039	3,039
Other liabilities	3,135	1,083	1,742	2,881	8,058	16,899	16,899
Deferred tax liabilities	-	-	-	75	-	75	75
Total undiscounted financial liabilities	**253,370**	**95,463**	**245,661**	**74,877**	**31,936**	**701,307**	**697,538**
Off Balance-sheet	**337**	**1,747**	**13,370**	**451**	**-**	**15,905**	**15,905**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.4 Operational risk

Operational risk is defined as the risk of loss due to inadequate or incorrect processes, human or internal system errors or events caused by external factors (natural disasters, fire, flood, attack, changes of legislation, embezzlement).

Operational risk management is conducted in compliance with regulatory requirements and is defined by the following internal acts:

- Policy on operational risk management
- Procedure on operational risk management
- The methodology for operational risk management information system
- Directive on reporting of operational losses and operational risks

When measuring operational risk exposure, based on the consequences of a risk event, the Bank distinguishes the following:
Loss from operational risk, which represents operational losses affecting the balance sheet and assuming the known amount of losses in the Bank's records.
Significant operational risk, which is present in business processes and has not resulted in operational losses, but there is a possibility of future operational losses resulting from it.

Operational risk assessment is performed through Self Risk Assessment for every business process of the Bank. Self Risk Assessment is performed on a yearly basis for every business process of the Bank using event-based questionnaires prepared in accordance with Basel guidelines. Based on collected data, each reported event which could result in operational risk is quantified and classified into a risk category. For events for which risks are high and very high, the business processes owners, in coordination with the Market and Operational Risks and Risk Control Department, propose actions for reducing exposure to operational risk by using methods for reduction of effects, i.e. damages and the probability of occurrence or by transferring the risk to a counterparty. The Market and Operational Risks and Risk Control Department reports the results of the Self Risk Assessment to the Management Board once a year.

The Market and Operational Risks and Risk Control Department reports to the Management Board quarterly on recorded operational losses, i.e. events which resulted in losses recorded in the Bank's records due to exposure to operational risk. The report on operational losses contains, at a minimum, data on amounts of losses, recovered amounts, unrecovered amounts, operational losses per type of event and cause, and share of different organisational units of the Bank in operational losses.

4.1.5 Capital adequacy

The basic parameters of the capital management policy are given by the Credit Institutions Act and the EU Directive (2013/36/EU, 2019/878/EU).

The basic objectives of capital management mean ensuring the following:

- the going concern assumption and
- meeting the regulatory and capital adequacy requirements

The total capital ratio as at 31 December 2022 was set at a minimum of 8%, while keeping a protective layer for the preservation of ordinary capital in the amount of 2.5% and a protective layer for structural system risk of 1.5%.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.5 Capital adequacy (continued)

Total capital is determined as a category of capital that is managed by the Bank and must be at least at a level that ensures the adequacy of capital sufficient to cover the capital requirements and to ensure minimum prescribed capital adequacy ratio. Total capital is calculated in accordance with the prescribed subordinate acts of CNB and Regulation (EU) no. 575/2013.

For the purpose of calculating capital adequacy, in 2018 the Bank has decided to adopt a "static approach" that allows the Bank to gradually incorporate the effects of the first-time adoption of the Decision on classification, which partially incorporates the effects of IFRS 9, on the calculation of regulatory capital by 5% in 2018, 15% in 2019, 30% in 2020, 50% in 2021 and 75% in 2022.

(HRK 000) CAPITAL ADEQUACY	31 December 2021	31 December 2022
TIER 1 CAPITAL	**109,127**	**102,713**
TIER 1 CAPITAL – COMMON EQUITY	**109,127**	**102,713**
Capital instruments eligible as CET1 Capital	326,318	346,317
Accumulated loss	(218,492)	(232,902)
Accumulated other comprehensive losses	606	(18,888)
Other reserves	3,792	3,792
(-) Goodwill	-	-
(-) Other intangible assets	(6,767)	(4,984)
Other transitional adjustments to CET 1 Capital	3,670	9,378
TIER 1 CAPITAL – ADDITIONAL	**-**	**-**
TIER 2 CAPITAL	17,198	7,126
TOTAL REGULATORY CAPITAL	**126,325**	**109,839**
Risk weighted assets		
Credit risk weighted assets	420,274	318,234
Exposure for operational risk	62,365	52,619
Exposure for FX risk	-	-
TOTAL RISK WEIGHTED ASSETS	**482,639**	**370,853**
COMMON EQUITY TIER 1 CAPITAL RATIO	**22.61%**	**27,70%**
TIER 1 CAPITAL RATIO	**22.61%**	**27,70%**
TOTAL CAPITAL RATIO	**26.17%**	**29,62%**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.6 Concentration risk

Concentration risk is every individual, direct or indirect exposure toward one counterparty or group of related parties or group of exposures connected by common risk factors such as industry, geographical area, operations or goods, i.e. application of techniques for credit risk reduction, which can cause such losses which could jeopardize the Bank's going concern.
The Bank analyses and reports on concentration risk present both on the asset side of the balance sheet, i.e. loan portfolio, as well as on the equity and liabilities side of the balance sheet, i.e. source of funds.

The Bank analyses concentration risk on the basis of each individual, direct or indirect exposure toward one counterparty or group of related parties and has regulated the identification of related parties by internal acts, determining the following:

1) control, i.e. relationship between the parent company and its subsidiary or similar relationship between any legal or natural person and the company, and
2) economical and financial ties.

This relationship is established mainly on the basis of information/data received from the client, but also by checking other available sources. Groups of related parties are formed and reported by the Credit Risk Management Department within the Risk Management Sector. Groups of related parties are entered into the Registry of Related Parties as the comprehensive database for related parties.

The Bank actively manages the diversification of the loan portfolio and limits the concentration limits, thus adjusting the structure and quality of the loan portfolio or reducing the credit risk.

For the purpose of defining the Bank's exposure to risk, limits for certain types of exposure are determined, depending on the geographical location of the debtor, the activity, the type of placements and the method of repayment of the placements.

In order to maintain a diversified and stable base of financing and to avoid becoming overly dependent on only certain sources, concentration is monitored for the following:

- deposits from companies and other financial institutions: 10 biggest deponents with term deposits in relation to total deposits from legal persons and financial institutions; 10 biggest deponents in relation to total deposits
- retail deposits: 10 biggest deponents from the retail sector in relation to total retail deposits and 100 biggest deponents from the retail sector in relation to total deposits.

The Market and Operational Risks and Risk Control Department reports the concentration risk to Management Board, Credit Committee and the Asset and Liability Management Committee on a monthly/quarterly basis.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.6 Concentration risk (continued)

Concentration risk is also monitored on a sector basis, as shown in the following table where the numbers are presented on a gross basis:

GROSS EXPOSURE (HRK)	2021	%	2022	%
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	-	0%	-	0%
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	41,596	11.12%	24,784	7.74%
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	-	0%	-	0%
FINANCIAL AND INSURANCE ACTIVITIES	113,534	30.35%	105,912	33.06%
CONSTRUCTION	14,480	3.87%	37,943	11.84%
INFORMATION AND COMMUNICATION	-	0%	-	0%
PUBLIC ADMINISTRATION	3	0%	2	0%
OTHER SERVICE ACTIVITIES	6,335	1.69%	84	0.03%
AGRICULTURE, FORESTRY AND FISHING	2,504	0.67%	2,110	0.66%
REAL ESTATE ACTIVITIES	91,431	24.44%	65,534	20.46%
MANUFACTURING	63,816	17.06%	73,738	23.02%
TRANSPORTATION AND STORAGE	-	0%	-	0%
MINING AND QUARRYING	-	0%	-	0%
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	6,211	1.66%	846	0.26%
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	28,261	7.56%	5,976	1.87%
RETAIL	5,897	1.58%	3,414	1.07%
TOTAL	**374,068**	**100.00%**	**320,342**	**100.00%**

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The management of the Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in the existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty.

The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. Significant judgments relating to allowance for credit losses are particularly complex in the current uncertain environment.

Significant judgments made in determining the most appropriate methodology for estimating the fair value of foreclosed assets is also described below. This and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Classification of financial assets

Business Model Assessment

The Bank determines its business models based on the objective under which its portfolios of financial assets are managed. In determining its business models, the Bank considers the following:

- Management's intent and strategic objectives and the operation of the stated policies in practice;
- The primary risks that affect the performance of the business model and how these risks are managed;
- How the performance of the portfolio is evaluated and reported to management; and
- The frequency and significance of financial asset sales in prior periods, the reasons for such sales and the expected future sales activities.

Solely Payments of Principal and Interest Test (SPPI test)

In assessing whether contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that they would not be consistent with a basic lending arrangement. In making the assessment, the Bank considers the primary terms as follows and assess if the contractual cash flows of the instruments continue to meet the SPPI test:

- Performance-linked features;
- Terms that limit the Bank's claim to cash flows from specified assets (non-recourse terms);
- Prepayment and extension terms;
- Leverage features; and
- Features that modify elements of the time value of money.

Impairment of financial assets

Significant Increase in Credit Risk

The basic criteria for assessing significant increases in credit risk are days past due. The Bank considers that the credit risk has increased considerably after the initial recognition if any of the following occurs:

- at the reporting date the borrower is more than 30 days past due (based on materiality threshold), but is still within a period not exceeding 90 days and
- in the last 3 months the borrower was past due for more than 30 days (based on materiality threshold) but did not exceed 90 days past due.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment of financial assets (continued)

Significant Increase in Credit Risk (continued)

In addition to days past due, the Bank uses qualitative indicators to determine a significant increase in credit risk such as a breach in contractual financial covenants, additional borrowing or third party liability, loss of license, concession and similar permits, which may negatively affect client business etc

Definition of default

The Bank considers that default status have occurred in the following conditions and refers to the reclassification of exposures to the minimum B1 risk category.

- the debtor has failed to fulfil its overdue obligation for more than 90 days (based on materiality threshold) under any significant credit obligation to the credit institution, its parent company or any of its subsidiaries

- the Bank considers it probable that the debtor will not fully meet its obligations to the Bank, its parent company or any of its subsidiaries without considering the possibility of collateral collection. In this regard, the Bank prescribes indicators for large portfolio that, in addition to the day of delay, indicate default status. These are indicators of a qualitative and quantitative nature closely related to the client's business.

Measurement of Expected Credit Loss

For exposures classified as Stage 1 and Stage 2, expected credit loss is calculated as the product of 12-month PD multiplied with LGD and EAD. Lifetime ECL is calculated as a product of the lifetime PD and LGD and the amount of exposure to credit risk at the reporting date. Exposure at default (EAD) is the gross book value of exposure at the reporting date

Assets that are classified in business model ATR (amortized cost), and refers to the corporate loan portfolio is divided into 4 homogeneous groups (pools) by product type, while the retail portfolio constitutes of one separate homogeneous group (pool). Probability of default (PD) provides probability that the borrower will not be able to meet its obligations. For the purpose of estimating 12M ECLs and LT ECLs for the ATR portfolio, models based on historical data are used, with conservative margin and adjustments for future macroeconomic developments.

The Bank calculates the probability of default over a specified period of time: one year PD12 - 12 months or lifetime PD - for the duration of the Life Time PD for each homogeneous group, based on the calculated historical default rate (DR) at the loan level. The calculation of the historical DR is calculated as the ratio of the sum of the placement parties that had the status of default and the sum of the total number of parties in the same period.

Due to the small amount of data and the oscillations between the maximum and minimum historically realized values in calculating PD, the calculated DR is increased by the margin of conservatism. The conservative margin is calculated as the standard deviation on the calculated DRs for each period included in the calculation of the DR average. The calculated standard deviation represents the percentage change on the calculated DR. The Bank does not currently have sufficient qualitative DR historical data for more than 5 years and the calculation of LFPD after 5 years is the result of extrapolation based on the calculated PD (from 12M to 5Y).

The Bank monitors macroeconomic developments primarily through the CNB's publications and the Macroeconomic publication forecasts and trends. The main macroeconomic indicators monitored are GDP, consumer price index and employment. For the purpose of adjusting the calculated PD to macroeconomic expectations, it is taken into account only the movement of GDP as the most significant macroeconomic variables. PD is assessed in the baseline and negative and optimistic scenarios whereby each scenario is given a certain weight of significance, based on expert assessment taking into account the likelihood of a recession, rating outlook credit rating agency and the time evolution of the probability weights of each scenarios.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment of financial assets (continued)

Measurement of Expected Credit Loss (continued)

To determine the amount of PD (probability of default) for exposures to central governments, central banks and financial institutions, ie exposures that have the rating of an external institution for credit risk assessment, the Bank uses data available on the website Moody's Investor Service - Annual Default Study Alphanumeric Rating Migration Rates).

LGD (Loss Given Default) represents a loss due to default status. Accurate LGD estimates of "default" bank claims are important for determining the required loan loss reserves, further for calculating appropriate capital, and determining the fair price of loans.

For exposures classified in corporate homogeneous pools with an exposure which exceeds HRK 1 million, the Bank calculates an individual LGD using Scenario 1, Scenario 2 and Scenario 3. For exposures less than 1 million, the Bank applies a unique percentage of LGD amounting to 45% in accordance with the Basel Committee on Banking Supervision Discussion paper Regulatory treatment of accounting provisions. The Bank uses 3 scenarios when calculating individual LGDs, with methodology depending on the type of exposure; i) exposures granted on the basis of the Debtor / Debtors / Guarantors' cash flow, excluding contractual covenants specifying the minimum level of EBITDA or the maximum level of indebtedness for the duration of the contractual relationship; and ii) exposures representing project and real estate financing. Each scenario has a specific weighting assigned to it to determine the final LGD. The weighting assigned to each scenario is the result of the proportion of truly closed default exposures in each of the three scenarios (taking into account closed default exposures). For exposures related to syndicated loans with a mother company, the Bank uses the calculation of LGD from mother company.

For the purposes of calculating the LGD for a homogeneous population group, the Bank divided the portfolio into secured exposures and unsecured exposures. The Bank calculates LGDs at the individual level for all secured exposures, regardless of the level of exposure, taking into account only the recoverability from residential property. For unsecured exposures, the Bank uses a single LGD percentage of 50%.

Off-balance sheet items are classified into the appropriate risk categories on the basis of which the credit institution is exposed to credit risk due to the inability to repay outflows that may occur or that arise from the payment of assumed off-balance sheet liabilities. In assessing provisions for off-balance sheet items, the Bank applies the conversion factor 1 prescribed by the Decision on the classification of exposures to risk categories and the method of determining credit losses. For all performing off-balance sheet exposures the Bank recognise impairment losses at a rate of 0.80% of off-balance sheet credit risk exposure. For off-balance sheet exposures arising from overdrafts and unused loans, the Bank applies the calculated PD and LGD as well as the balance sheet portion of exposures.

Impairment allowance on assets individually assessed as credit-impaired is based on the management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and net realizable value of any underlying collateral. Each impaired asset is assessed separately, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

The Bank's management believes that the recognised expected credit losses and provisions are sufficient.

Valuation of foreclosed assets

The Bank occasionally acquires land and properties in settlement of certain loans and advances. Real estate is stated at the lower of the carrying value of the related loans and advances at the date of settlement and the net realisable value of such assets. When assessing the valuation of foreclosed assets, the Bank engages certified independent valuators, and subsequently reviews them and compares them with the carrying amount. Gains or losses on disposal are recognised in the income statement.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Taxation

The Bank provides for tax liabilities in accordance with the tax laws of the Republic of Croatia. Tax returns are subject to the approval of the tax authorities which are entitled to carry out subsequent inspections of a taxpayer's records.

The Bank did not recognise deferred tax asset on tax losses carried forward due to history of recurring past losses.

Provisions for court cases

Management Board believes that court settlement provisions are sufficient at the reporting date. The Bank conducts an individual assessment of all legal disputes against the Bank. The initial assessment is carried out by the Department of Legal Affairs of the Bank, and the final decision on the risk group and the amount of the provision is made by the Management Board

At 31 December 2022 a total of 4 court proceedings against the Bank were conducted.

In 1 civil case there is a first-instance verdict issued in favor of the Bank.

All disputes were classified in risk category A.

As explained in Note 17, the Bank provided HRK 154 thousand (2021: HRK 207 thousand), for principal and interest for liabilities from court cases, which management estimates to be sufficient. These amounts represent the best estimate of the Bank for losses in court disputes, although the actual loss on the Bank's court litigation may be significantly different.

Regulatory requirements

The CNB is entitled to carry out regulatory inspections of the Bank's operations and to request changes to the carrying values of assets and liabilities, in accordance with the underlying regulations.

Determination of control

In accordance with requirements of IFRS 10 Consolidated Financial Statements, the Bank regularly reassess whether they have control over significant activities of debtors in financial difficulties which are unable to regularly service its liabilities to the Bank. The Bank concluded in 2022 that there are no debtors which should be consolidated, which is consistent with the conclusion reached in 2021.

Internally developed software-determination of capitalisation criteria and estimated useful life

Intangible assets include internally developed software of total capitalized value of HRK 19.6 million. The Bank uses software in its business, and it is transferred to use according to the completion of individual modules. From 1 January 2020 all internally developed software was put into use since all modules are in production.

Software development costs are capitalized when the criteria in IAS 38 are met *Intangible assets*. Such assets are then amortized linearly over a useful life of 10 years. Management Board re-evaluates the remaining useful life of the software at each reporting date.

There is judgement involved in determining an appropriate framework to consider which expenditure requires capitalisation and which should be expensed. Note 12 of the financial statements provides details of the amounts capitalised.

Notes to the financial statements (continued)

6. AMOUNTS WITH THE CROATIAN NATIONAL BANK

[HRK'000]	31 December 2021	31 December 2022
Giro accounts with CNB	**184,583**	**214,554**
in HRK	125,289	156,962
In EUR	59,679	57,592
ECL allowance	(385)	-
Obligatory reserve with CNB	**36,655**	**-**
in HRK	36,731	-
In EUR	-	-
ECL allowance	(76)	-
TOTAL	**221,238**	**214,554**

Movements in loss allowance (Stage 1) of amounts with the CNB are presented below:

[HRK'000]	2021	2022
As at 1 January	**324**	**461**
Net (reversal)/charge of impairment losses	137	(461)
As at 31 December	**461**	**-**

Banks until 30 November were obliged to calculate obligatory reserve in HRK and foreign exchange. In the maintenance periods starting from August 10, 2022 to December 13, 2022, the required reserve ratio was 5%. In the maintenance period from December 14, 2022 to December 31, 2022, the reserve requirement rate was 1% (31 December 2021: 9%).

The kuna part of the compulsory reserve thus calculated until August 10, 2022 is increased by 75% (December 31, 2021: 75%) computed reserve requirements on foreign currencies. 70% of the kuna part of the reserve requirement is allocated to a special account with the CNB, while the rest is maintained by the average daily balance on the settlement account and on the account of funds for covering the negative balance on the current account in the National Clearing System.

The portion of accrued foreign currency reserves is reduced by 75% (31 December 2021: 75%), which is accounted for by the calculated portion in kuna while the remaining 25% is held maintains the average daily balance of liquid foreign currency receivables in accordance with the Decision on Foreign Exchange Reserve.

The obligatory reserve did not earn interest in 2022 (2021: nil).

In the maintenance periods from August 10, 2022 to December 13, 2022, the percentage of allocation of the kuna part of the mandatory reserve is 70%. In the maintenance period from December 14, 2022 to December 31, 2022, the percentage of allocation of the kuna part of the mandatory reserve is 0%.

Notes to the financial statements (continued)

7. CASH AND ACCOUNTS WITH OTHER BANKS

[HRK'000]	31 December 2021	31 December 2022
Cash in hand	**8,021**	**7,014**
in HRK	5,053	2,977
in foreign currency	2,968	4,037
Giro accounts with other banks	**21,748**	**21,355**
with foreign banks	11,479	16,967
ECL allowance	(84)	(84)
with domestic banks	10,360	4,488
ECL allowance	(7)	(16)
TOTAL	**29,769**	**28,369**

Movements in loss allowance (Stage 1) of Giro accounts with other banks are presented below:

[HRK'000]	2021	2022
As at 1 January	**368**	**91**
Net reversal of impairment loss	(277)	9
As at 31 December	**91**	**100**

8. PLACEMENTS WITH OTHER BANKS

[HRK'000]	31 December 2021	31 December 2022
Short-term	**476**	**-**
with domestic banks	476	-
ECL allowance	-	-
TOTAL	**476**	**-**

[HRK'000]	2021	2022
As at 1 January	**-**	**-**
Net reversal of impairment loss	-	-
As at 31 December	**-**	**-**

Notes to the financial statements (continued)

9. FINANCIAL ASSETS - SECURITIES

[HRK'000] SECURITIES AT FAIR VALUE THROUGH OCI	31 December 2021	31 December 2022
Financial assets at fair value through OCI	**173,813**	**117,219**
Bonds of the Croatian Ministry of Finance	129,081	93,195
Foreign government bonds	44,724	24,017
Foreign corporate bonds	8	7
Of which:		
- listed	173,813	117,219
- not listed	-	-
Accrued interest	**916**	**806**
not past due	917	806
ECL allowance	(1)	-
TOTAL	**174,729**	**118,025**

[HRK'000] SECURITIES AT FAIR VALUE THROUGH PL	31 December 2021	31 December 2022
Securities measured at FV through profit or loss – cash funds (quoted)	-	-
TOTAL	-	-

Notes to the financial statements (continued)

10. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers at amortised cost

[HRK'000]	31 December 2021	31 December 2022
Gross loans	**372,009**	**319,375**
retail	3,663	3,036
corporate	368,346	318,339
Interest receivables	**2,854**	**1,795**
ECL allowance	**(22,872)**	**(36,895)**
Gross loans	(22,150)	(36,345)
Interest receivables	(722)	(550)
Deferred income from fees	**(795)**	**(828)**
TOTAL	**351,196**	**283,447**

Notes to the financial statements (continued)

11. PROPERTY AND EQUIPMENT

2022 [HRK'000]	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
At 1 January 2022	**15,440**	**7,517**	**5,589**	**1,027**	**78**	**29,651**
Additions	174	-	-	481	750	1,405
Write-offs and disposals	(410)	-	(1,064)	(332)	-	(1,806)
Transfer to use	-	345	26	388	(759)	-
At 31 December 2022	**15,204**	**7,862**	**4,551**	**1,564**	**69**	**29,250**
Accumulated depreciation						
At 1 January 2022	**2,321**	**7,322**	**4,427**	**675**	**-**	**14,745**
Charge for the year	2,135	117	205	159	-	2,616
Write-offs and disposals	(410)	-	(967)	(334)	-	(1,711)
At 31 December 2022	**4,046**	**7,439**	**3,665**	**500**	**-**	**15,650**
Net carrying value	**11,158**	**423**	**886**	**1,064**	**69**	**13,600**

2021 [HRK'000]	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
At 1 January 2021	**21,383**	**7,583**	**7,865**	**1,365**	**78**	**38,274**
Additions	16,688	28	264	26	668	17,674
Write-offs and disposals	(22,631)	(94)	(3,208)	(364)	-	(26,297)
Transfer to use	-	-	668	-	(668)	-
At 31 December 2021	**15,440**	**7,517**	**5,589**	**1,027**	**78**	**29,651**
Accumulated depreciation						
At 1 January 2021	**14,696**	**7,161**	**7,400**	**880**	**-**	**30,137**
Charge for the year	2,550	255	164	144	-	3,113
Write-offs and disposals	(14,925)	(94)	(3,137)	(349)	-	(18,505)
At 31 December 2021	**2,321**	**7,322**	**4,427**	**675**	**-**	**14,745**
Net carrying value	**13,119**	**195**	**1,162**	**352**	**78**	**14,906**

As at 31 December, Property and equipment include Right-of-use assets in the amount of HRK 13,755 thousand (2021: HRK 12,779 thousand) relating to leased office premises and motor vehicles.

Notes to the financial statements (continued)

11. PROPERTY AND EQUIPMENT (continued)

Leases as lessee

The Bank leases a number of office premises. The leases typically run for a period of 1 to 10 years with the option to renew the lease after that time. The Bank also lease IT equipment. These leases are short term and/or leases of low value items. The Bank have elected not to recognize Right of use assets and Lease liabilities for these leases.

Information about leases for which the Bank is a Lessee is presented below:

Right-of-use

In HRK '000	Land and buildings	Motor vehicles	**Total**
Balance at 1 January 2021	**461**	**250**	**711**
Depreciation charge of the year	(1,228)	(125)	**(1,353)**
Additions	13,692	-	**13,692**
Disposals	(251)	-	**(251)**
Balance at 31 December 2021	**12,674**	**125**	**12,799**
Balance at 1 January 2022	**12,674**	**125**	**12,799**
Depreciation charge of the year	(1,989)	(117)	**(2,106)**
Additions	174	482	**656**
Disposals	-	-	**-**
Balance at 31 December 2022	**10,859**	**490**	**11,349**

Maturity analysis - Contractual undiscounted cash flows

In HRK '000	Land and buildings	Motor vehicles	**Total**
Balance at 31 December 2021	**13,829**	**116**	**13,945**
Less than one year	2,043	80	**2,123**
Between one and five years	1,933	15	**1,948**
Between two and three year	1,278	15	**1,293**
Between three and four year	1,278	6	**1,284**
Between four and five years	1,278	-	**1,278**
More than five years	6,019	-	**6,019**
Balance at 31 December 2022	**11,859**	**458**	**12,317**
Less than one year	2,006	109	**2,115**
Between one and five years	1,278	109	**1,387**
Between two and three year	1,278	100	**1,378**
Between three and four year	1,278	93	**1,371**
Between four and five years	1,278	47	**1,325**
More than five years	4,741	-	**4,741**

Amounts recognised in profit or loss

In HRK '000	Land and buildings	Motor vehicles	**Total**
Interest on lease liabilities	126	10	**136**
Expenses relating to short-term leases	175	-	**175**
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	66	-	**66**
Total 2021	**367**	**10**	**377**
Interest on lease liabilities	245	11	**256**
Expenses relating to short-term leases	-	-	**-**
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	122	-	**122**
Total 2022	**367**	**11**	**378**

Notes to the financial statements (continued)

12. INTANGIBLE ASSETS

2022 [HRK'000]	Internally generated software	Leasehold improvements	Licenses	Assets under construction	Total
Cost					
At 1 January 2022	**19,600**	**183**	**5,585**	**-**	**25,368**
Additions	-	-	-	117	117
Transfer into use	-	-	117	(117)	-
Write-offs	-	-	(13)	-	(13)
At 31 December 2022	**19,600**	**183**	**5,689**	-	**25,472**
Accumulated amortisation					
At 1 January 2022	**13,047**	**3**	**5,551**	**-**	**18,601**
Charge for the year	1,848	18	34	-	1,900
Write-offs	-	-	(13)	-	(13)
At 31 December 2022	**14,895**	**21**	**5,572**	**-**	**20,488**
Net carrying value	**4,705**	**162**	**117**	**-**	**4,984**

2021 [HRK'000]	Internally generated software	Leasehold improvements	Licenses	Assets under construction	Total
Cost					
At 1 January 2020	**19,600**	**5,109**	**5,585**	**-**	**30,293**
Additions	-	183	-	-	183
Transfer into use	-	-	-	-	-
Write-offs	-	(5,109)	-	-	(5,109)
At 31 December 2020	**19,600**	**183**	**5,585**	-	**25,368**
Accumulated amortisation					
At 1 January 2020	**11,199**	**5,109**	**5,506**	**-**	**21,814**
Charge for the year	1,848	3	45	-	1,896
Write-offs	-	(5,109)	-	-	(5,109)
At 31 December 2020	**13,047**	**3**	**5,551**	**-**	**18,601**
Net carrying value	**6,553**	**180**	**34**	**-**	**6,767**

Notes to the financial statements (continued)

13. OTHER ASSETS

[HRK'000] OTHER ASSETS	31 December 2021	31 December 2022
Other assets	**16,657**	**1,824**
Fees receivable	144	69
Prepaid expenses	178	236
Other receivables	9,405	1,003
Foreclosed assets	6,930	516
Impairment allowance	**(2,805)**	**(295)**
TOTAL	**13,852**	**1,529**

a) *Foreclosed assets*

Foreclosed assets refer to land and real estate acquired through pledge for non-performing loans to customers. They are initial measured at a lower of net carrying amount of loans and advances balance or its fair value at the date of repossession. Subsequently their value is adjusted if there is a decrease in underlying valuation of assets. Foreclosed assets are presented net of impairment allowance.

During 2022 year, the Bank sold all foreclosed assets classified in AFS portfolio and did not recognized additional impairment while in 2021 year, the Bank recognised additional impairment of HRK 4,061 thousands for repossessed collateral. Effects are recognised in other provisions in Note 28.

b) *Movements in impairment allowance for other assets*

[HRK'000]	2021	2022
At 1 January	**2,805**	**2,805**
Increase/decrease	-	-
Write-offs	-	(2,510)
At 31 December	**2,805**	**295**

Notes to the financial statements (continued)

14. DEPOSITS FROM CUSTOMERS

[HRK'000]	31 December 2021	31 December 2022
Demand deposits	**198,589**	**207,108**
retail	60,659	60,990
in HRK	*15,643*	*14,922*
in foreign currency	*45,016*	*46,068*
corporate	137,930	146,118
in HRK	*45,913*	*45,748*
in foreign currency	*92,017*	*100,370*
Term deposits	**380,794**	**311,548**
retail	365,176	292,700
in HRK	*86,769*	*70,580*
in foreign currency	*278,407*	*222,120*
corporate	15,618	18,848
in HRK	*13,928*	*13,800*
in foreign currency	*1,690*	*5,048*
Accrued interest	**3,105**	**2,729**
TOTAL	**582,488**	**521,385**

15. DEPOSITS AND BORROWINGS FROM BANKS

[HRK'000]	31 December 2021	31 December 2022
Short-term	**46,469**	**1,867**
in HRK	1,366	*1,867*
in foreign currency	45,103	-
Long-term	**6,010**	**4,790**
in HRK	273	*219*
in foreign currency	5,737	*4,571*
Of which		
Borrowings	*51,113*	*4,790*
Deposits	*1,366*	*1,867*
Accrued interest	**6**	**12**
TOTAL	**52,485**	**6,669**

Borrowings consist of loans received from the Croatian Bank for Reconstruction and Development ("HBOR") in the amount of HRK 4.6 million (31 December 2021: HRK 5.7 million) and short term borrowings from related party.

In accordance with the overall agreement, borrowings from HBOR are used to fund loans to customers for eligible construction and development projects at preferential interest rates.

Notes to the financial statements (continued)

16. SUBORDINATED DEBT

[HRK'000]	31 December 2021	31 December 2022
Subordinated debt	**42,552**	**22,604**
in HRK	20,000	-
in foreign currency	22,552	22,604
Accrued interest	**-**	**-**
TOTAL	**42,552**	**22,604**

In July 2014 subordinated debt contract was signed, based on which J&T Banka, Prague, has made payment in the amount of EUR 3 million, or equivalent of HRK 22.9 million, at an interest rate of Euribor 12M + 7% per annum for a period of 10 year. In September 2020 interest rate decreased to 3.74% fixed.

During 2016, a new subordinated debt contract was signed, based on which J&T Bank Prague provided additional new funds of HRK 20 million at an interest rate of 8.8% for a period of seven years. In September 2020 interest rate decreased to 3.79% fixed.

In April 2022, the Bank terminated the subordinated debt agreement for HRK 20 million, and the deposit funds were returned to J&T Bank, Prague, with the date of inclusion of the capital increase in the Bank's regular capital in the amount of HRK 20,000,000.00, which was carried out by payment in money by the majority owner of the Bank - J&T banka a.s. Prague, based on the Management Board's Decision on increasing the Bank's share capital (authorized capital) and issuing new shares from 16 March, 2022 to which the Supervisory Board gave its consent on 18 March, 2022.

Subordinated debt is included in the additional capital of the Bank and is amortised for regulatory purposes in their final five years before maturity.

Subordinated debt is subordinated to all other liabilities of the Bank.

17. PROVISIONS FOR LIABILITIES AND CHARGES

[HRK'000]	31 December 2021	31 December 2022
Provisions for legal disputes	208	156
Provisions for termination benefits and similar liabilities to employees	2,407	1,319
Provisions for contingent liabilities from credit risk	274	121
Provisions for contingent liabilities from other sources to individuals	150	163
TOTAL	**3,039**	**1,759**

The movement in provisions for liabilities and charges is presented below:

[HRK'000]	2021	2022
As at 1 January	**1,060**	**3,039**
Increase/decrease in the income statement		
- Increase in provisions for legal disputes (Note 28b)	5	5
- Provisions for termination benefits and similar liabilities to employees (Note 28b)	2,399	1,319
- Decrease in provisions for contingent liabilities (Note 28a)	(25)	(153)
- Increase in provisions from other sources to individuals (Note 27b)	-	13
Provisions used during the year (towards employees)	(295)	(2,407)
Provisions used during the year (for legal disputes)	(105)	(57)
At 31 December	**3,039**	**1,759**

Notes to the financial statements (continued)

18. OTHER LIABILITIES

[HRK'000]	31 December 2021	31 December 2022
Trade payables	599	315
Liabilities for salaries, deductions from salaries, taxes and benefits	1,217	1.149
Deferred income	311	251
Other liabilities	1,957	656
Liabilities for assets in use	12,815	11.399
TOTAL	**16,899**	**13,770**

Liabilities for assets in use mostly include lease agreements for business offices in Zagreb and Varaždin.

19. EQUITY

a. Share capital

[HRK'000]	31 December 2021	31 December 2022
Share capital	307,085	327,085
TOTAL	**307,085**	**327,085**

31 December 2022	Number of shares	Ownership share (%)
J&T BANKA A.S.	32,118,202	98,20
J&T BANKA D.D.	590,338	1,80
TOTAL	**32,708,540**	**100.00**

31 December 2021	Number of shares	Ownership share (%)
J&T BANKA A.S.	25,350,000	82.55
ALTERNATIVE UPRAVLJANJE D.O.O.	3,571,429	11.63
Other shareholders	1,787,111	5.82
TOTAL	**30,708,540**	**100.00**

Ordinary shares carry voting rights at shareholders' meetings, subject to a minimum shareholding of one share. The Bank does not have preference shares. Issued share capital as at 31 December 2022 amounted to HRK 327 million (31 December 2021: HRK 307 million). The total number of authorised registered shares at 31 December 2022 was 20,708,540 (2021: 30,708,540) with no nominal value per share (2021: no nominal value per share).

Notes to the financial statements (continued)

19. EQUITY (continued)

b. Share premium

The premium on the issued shares was formed in previous periods as a result of the recapitalization of the Bank above the nominal value of the subscribed capital.

c. Other reserves

[HRK'000]	31 December 2021	31 December 2022
Reserves for treasury shares	2,557	2,557
Legal reserves	1,235	1,235
	3,792	**3,792**

Other reserves comprise of legal reserves and treasury shares reserves.

Legal reserve

The bank is obliged to form a legal reserve by allocating 5% of net profit for the year, until reserves reach 5% of the share capital. The legal reserve may be used to cover losses of previous years if the losses are not covered by current profit for the year or if no other reserves are available.

Treasury share reserve

The reserve for treasury shares is the result of the divestments based on the previous ownership of its own shares, and subsequently sold with the net gain and re-purchase during 2018 and 2017.

d. Treasury shares

When the Bank purchases the share capital of the Bank (treasury shares), the paid amount represents a deductible item from the capital and reserves belonging to the Bank's shareholders until such shares are rescinded, issued or sold.

On December 31, 2022, the Bank had a total of 590,338 (31 December 2021: 590,338) treasury shares worth HRK 2,202 thousand (31 December 2021: 2,202 thousand). During 2022 and 2021 there were no changes in Treasury shares.

e. Fair value reserve

The Fair value reserve includes unrealized gains and losses from changes in fair value of debt securities at fair value through other comprehensive income.

f. Accumulated loss

The transferred loss includes accrued losses from previous years.

Notes to the financial statements (continued)

20. INTEREST INCOME CALCULATED BY USING THE EFFECTIVE INTEREST METHOD

[HRK'000]	2021	2022
Analysis by product	**27,567**	**17,897**
Loans and advances to customers	26,546	17,235
Placements with other banks	-	12
Debt securities	1,020	650
Other	1	-
Analysis by source	**27,567**	**17,897**
Retail	2,204	257
Corporate	20,262	12,909
State and public sector	1,122	749
Financial institutions	1,931	612
Other	2,048	3,370

21. INTEREST AND SIMILAR CHARGES

[HRK'000]	2021	2022
Analysis by product	**4,712**	**3,752**
Deposits from customers	2,676	2,151
Deposits and borrowings from banks	211	193
Subordinated debt	1,689	1,152
Interest expense on lease liabilities	136	256
Analysis by source	**4,712**	**3,752**
Retail	2,058	1,426
Corporate	489	602
State and public sector	1	-
Financial institutions	2,162	1,722
Other	2	2

22. FEE AND COMMISSION INCOME

[HRK'000]	2021	2022
Payment transactions	928	485
Letters of credit and guarantee fees	73	42
Early repayment fees	55	169
Brokerage fees	868	2,803
Other	1,577	1,497
TOTAL	**3,501**	**4,996**

Notes to the financial statements (continued)

23. FEE AND COMMISSION EXPENSE

[HRK'000]	2021	2022
Payment transactions	**340**	**235**
Credit cards	**70**	**2**
Other	**347**	**244**
TOTAL	**757**	**481**

24. NET GAINS AND LOSSES FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

[HRK'000]	2021	2022
Realised net (loss)/gain from securities at fair value through OCI	**509**	**115**
Bonds	509	115
Realised net loss from financial assets at fair value through profit and loss	**(16)**	-
Cash funds	(16)	-
Unrealised net gain from financial assets at fair value through profit and loss	**-**	**-**
TOTAL	**493**	**115**

25. NET FOREIGN EXCHANGE GAINS AND FX TRADING INCOME

[HRK'000]	2021	2022
Net (loss)/gain from translation of monetary assets and liabilities	120	-
Net gains from trading with foreign currencies	2,225	1.537
TOTAL	**2,345**	**1.537**

Notes to the financial statements (continued)

26. OTHER INCOME

[000 HRK]	2021	2022
Rental of premises	1,091	740
Use of corporate cars	59	56
Collection of previously written off receivables	89	13
Net income from disposal of tangible and intangible assets	3,550	979
Release of accrued expenses from previous years	545	464
Other	415	381
TOTAL	**5,749**	**2,633**

27. OTHER ADMINISTRATIVE EXPENSES

a) Personnel expenses

[HRK'000]	2021	2022
Personnel expenses	**14,793**	**12,797**
- *Net salaries*	*8,479*	*7,350*
- *Contributions on and from salaries*	*4,188*	*3,742*
- *Taxes and surtaxes*	*1,399*	*1,254*
- *Other personnel expenses*	*727*	*451*
TOTAL	**14,793**	**12,797**

As at 31 December 2022, the Bank had 52 employees (31 December 2021: 57 employees).

b) Other administrative expenses

[HRK'000]	2021	2022
Services	5,924	5,039
Costs of deposit insurance	-	325
Material and other costs	905	966
Representation, advertising and sponsorship	118	223
Other administrative expenses	446	294
Car and other transportation expenses	120	140
Business trip	89	200
Other expenses	587	37
Taxes, contributions, fees	605	381
TOTAL	**8,794**	**7,605**

Services include intellectual services, including the audit cost. The audit fee in 2022 amounted to HRK 464 thousand, plus VAT (2021: HRK 468 thousand + VAT).

In accordance with the Deposit Insurance Act and the Methodology for calculating the degree of risk of a particular credit institution in Croatia, the deposit insurance premium is calculated as a multiplication of the premium base, the premium rate and the degree of risk. The Bank was not obligated to pay this insurance premium in 2021.

Other expenses in 2022 include the cost of provisions for contingent liabilities from other sources towards individuals in the amount of HRK 13 thousand (2021: HRK 0 thousand), as presented in note 17.

Notes to the financial statements (continued)

28. EXPECTED CREDIT LOSSES AND PROVISIONS

a) Recognised ECL during the period

[HRK'000]	2021	2022
Recognised ECL during the period		
Impairment of loans and advances to customers (Note 4.1.1)	(3,492)	14,961
Impairment of Accounts with the CNB and giro accounts and placements with other banks	(141)	(452)
Impairment of securities at fair value through OCI	(191)	(268)
Impairment of off-balance-sheet exposure to credit risk (Note 17)	(25)	(153)
TOTAL	**(3,852)**	**14,088**

b) Provisions

[HRK'000]	2021	2022
Other provisions		
Provisions for court cases (Note 17)	5	5
Provisions for termination benefits (Note 17)	2,399	1,319
Impairment of foreclosed assets (Note 13a)	4,061	-
TOTAL	**6,465**	**1,324**

29. INCOME TAX

a) Income tax expense recognised in the income statement

[HRK'000]	2021	2022
Current tax expense	-	-
Deferred tax expense	-	-
TOTAL INCOME TAX	**-**	**-**

b) Reconciliation of accounting profit and current income tax liability

[HRK'000]	2021	2022.
(Loss)/Profit before tax	2,975	(17,385)
Income tax at a rate of 18%	535	(3,129)
Non-deductible expenses - tax at a rate of 18%	7,297	6.996
Non-taxable income - tax rate 18%	(7,209)	(7.163)
Tax profit/(loss) for the year at a rate of 18%	-	-
Tax losses carried forward for which no deferred tax asset is recognized	-	3,296
Utilisation of previously unrecognised tax losses	(623)	-
Write-off of deferred tax assets utilised in previous years	-	
Effective tax rate	-	-
TOTAL	**-**	**-**

Notes to the financial statements (continued)

29. INCOME TAX (CONTINUED)

The availability of tax losses in future periods, subject to change by the Ministry of Finance, gross of tax rate, are as follows:

[HRK'000]	31 December 2022
No later than 1 year	-
No later than 2 year	-
No later than 3 year	13,807
No later than 4 year	-
No later than 5 year	18,310
Total gross tax losses carried forward not recognised as deferred tax assets	**32,117**

On the reporting date the Bank did not recognise any deferred tax asset in respect of tax losses carried forward on the grounds of uncertainty as to whether sufficient future taxable profits will be available to utilise those losses before their expiry.

c) Deferred tax liability on financial assets – amounts recognised in OCI

The Bank has not recognized in its books a deferred tax liability or unrealized gains on securities measured in OCI (deferred tax liability on unrealized gains in 2021: HRK 75 thousand).

[HRK '000] Items that are or may be reclassified to subsequently to profit or loss	2021	2022
Balance as at 1 January	**446**	**75**
Recognised deferred tax liability in other comprehensive income	(371)	(75)
Balance as at 31 December	**75**	**-**

For unrealized gains from Other comprehensive income, the Bank did not recognize deferred tax assets since it is not certain whether it will generate sufficient future profits to use these losses.

Notes to the financial statements (continued)

30. BASIC AND DILUTED EARNINGS PER SHARE

For the purpose of calculating earnings per share, profit calculated as the profit for the period attributable to shareholders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares in circulation during the year after deducting the number of ordinary treasury shares.

Since there is no effect of options, convertible bonds or similar effects, the weighted average number of ordinary shares used to calculate diluted earnings per share was the same as the one used to calculate basic earnings per share. The bank has no preference shares.

	2021	2022
Profit/(loss) for the year [HRK'000]	2,975	(17,385)
Weighted average number of shares	30,708,540	32,708,540
BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE (in HRK)	**0.10**	**(0.53)**

	2021	2022
Number of shares as at January 1	30,708,540	30,708,540
Weighted average number of shares as at December 31	**30,708,540**	**32,708,540**

Notes to the financial statements (continued)

31. CONCENTRATION OF ASSETS AND LIABILITIES

The table below represents the concentration of the Bank's assets and liabilities towards Republic of Croatia, including state-owned institutions and central bank (before ECL allowance):

[HRK'000]	Notes	31 December 2021	31 December 2022
Giro account with CNB	6	184,968	214,554
Obligatory reserve with CNB	6	36,731	-
Bonds and treasury bills issued by the Ministry of Finance		129,082	93,195
Borrowings from Croatian Bank for Reconstruction and Development		(6,010)	(4,790)
TOTAL		**344,771**	**302,959**

32. CASH AND CASH EQUIVALENTS

[HRK'000]	Notes	31 December 2021	31 December 2022
Cash and giro accounts with other banks	7	29,860	28,469
Giro account with CNB	6	184,968	214,554
TOTAL		**214,828**	**243,023**

33. CONTINGENCIES

[HRK'000]	31 December 2021	31 December 2022
Guarantees	**1,475**	**1,325**
in HRK	1,475	1,325
Revolving facility	**14,430**	**4,005**
in HRK	14,430	4,005
in foreign currency	-	-
TOTAL	**15,905**	**5,330**

As at 31 December 2022, the Bank recognized provisions on off-balance sheet risks arising from the issuance of guarantees, letters of credit and unused loan credits in the amount of HRK 121 thousand (2021: HRK 274 thousand) as presented in note 17.

Notes to the financial statements (continued)

34. RELATED PARTY TRANSACTIONS

The majority owner of the Bank is J&T Banka a.s. based in the Czech Republic and the ultimate parent is J&T Finance Group SE. The majority owner as at 31 December 2022 owned 98.20% of the Bank's shares (31 December 2021: 82.55%). With the recapitalization in 2015 and 2016 and the subordinated debt, the Bank was recapitalized in 2022, and had other banking transactions with its majority owner during the year which resulted with revenue and expenses for the year, as well as assets and liabilities at year-end.

The second largest shareholder as at 31 December 2021 is Alternative Upravljanje d.o.o. owned 11.63% of the shares. The remaining 5.82% of the shares were traded publicly until 3rd November 2017 and delisted from Zagreb Stock Exchange. In 2022 majority owner take over all shares from small shareholders.

The Bank considers its related parties are their key shareholders, their direct or indirect subsidiaries, members of the Supervisory Board and the Management Board and other management (together "key management"), close family members of key management, jointly controlled companies or companies under significant influence of the Key management members and members of their immediate families, in accordance with the definition given in the International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

As at 31 December 2022, the Bank has liabilities to key shareholders in respect of assets on current accounts and liabilities for received deposits.

Transactions related to key management in 2022 were related to the payment of regular salaries and received deposits. The Bank regulates the Proceeds through the Policy and Ordinance on measuring and rewarding the Bank's performance, organizational units and employees.

Key management includes members of the Management Board and directors responsible for areas of strategic importance. The number of key management members at 31 December 2022 is 16 (31 December 2021: 14).

Related party transactions for the year ended 31 December 2022 and 31 December 2021 were as follows:

	2021					2022				
	Assets	Liability	Revenue	Expenses	Impairment	Assets	Liability	Revenue	Expenses	Impairment
J&T Finance Group SE and affiliates										
Other income	-	-	1,597	-	(51)	-	-	3,837	-	-
Other receivables	-	-	-	-	-	-	-	-	-	-
Received deposits										
Giro accounts	10,428	1,255	-	-	-	10,374	1,867	-	-	(83)
Received loans	-	45,103	-	110	(83)	-	-	-	77	-
Subordinated debt	-	42,552	-	1,624	-	-	22,603	-	1,152	-
Other liabilities	-	-	-	68	-	-	-	-	19	-
TOTAL	**10,428**	**88,910**	**1,597**	**1,802**	**(134)**	**10,374**	**24,470**	**3,837**	**1,248**	**(83)**
Key management personnel										
Loans and advances to customers	-	-	-	-	-	8	-	-	-	(1)
Received deposits	-	3,689	-	-	-	-	2,079	-	-	-
Compensation to key management personnel	-	583	-	6,858	-	-	593	-	6,732	-
TOTAL	**-**	**4,272**	**-**	**6,858**	**-**	**8**	**2,672**	**-**	**6,732**	**(1)**

Notes to the financial statements (continued)

35. AVERAGE EFFECTIVE INTEREST RATES

Average interest rates calculated based on the weighted average for each category of interest-earning assets and interest-bearing liabilities, are presented below:

	2021	2022
Assets		
Amounts with the Croatian National Bank	-	-
Placements with banks	0.03%	3,30%
Investment securities	0.50%	0,50%
Loans and advances to customers	6.18%	5,51%
Liabilities		
Deposits from customers	0.34%	0,31%
Deposits and borrowings from banks	1.15%	1,04%
Subordinated debt	3.84%	3,82%

36. OPERATING LEASE COMMITMENTS

Following table presents future minimum lease payments for which the Bank did not recognise right-of-use assets and liabilities for leases in accordance with IFRS 16:

[000 HRK]	31.12.2021	31.12.2022
Up to 1 year	104	101
From 1 to 2 years	104	102
From 2 to 3 years	90	102
From 3 to 4 years	90	102
From 4 to 5 years	-	-
Over 5 years	517	486
	905	893

Notes to the financial statements (continued)

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value

Fair value represents the amount at which an asset could be exchanged, or a liability settled on normal market conditions, Financial assets through other comprehensive income are carried at fair value.

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: These instruments include: liquid debt and equity securities traded on liquid markets and quoted investment in investment funds.
- Level 2: These instruments include: less-liquid debt and equity securities and derivatives valued by a model that uses input level 1 data.
- Level 3: Instruments where fair value cannot be determined directly by referring to available market information and for which different valuation techniques were used to calculate the value. Instruments classified in this category relate to a factor that is not available on the market, which has a significant impact on the fair value of the instrument itself.

There were no transfers between levels in 2022 and 2021. The tables below present the fair value of financial instruments that are measured at fair value for the Bank, allocated by the hierarchy of fair value levels with respect to the input data used in the valuation process.

2022 Financial assets	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total HRK '000
Financial assets at fair value through other comprehensive income				
Bonds of the Ministry of Finance	93,752	-	-	93,752
Foreign government bonds	24,266	-	-	24,266
Foreign corporate bonds	-	-	7	7
Financial assets at fair value through profit and loss account	-	-	-	-
Cash funds	-	-	-	-
Total financial assets at fair value	**118,018**	**-**	**7**	**118,025**

2021 Financial assets	Level 1 HRK '000	Level 2 HRK '000	Level 3 HRK '000	Total HRK '000
Financial assets at fair value through other comprehensive income				
Bonds of the Ministry of Finance	129,707	-	-	129,707
Foreign government bonds	45,014	-	-	45,014
Foreign corporate bonds	-	-	8	8
Foreign treasury bills	-	-	-	-
Financial assets at fair value through profit and loss account	-	-	-	-
Cash funds	-	-	-	-
Total financial assets at fair value	**174,721**	**-**	**8**	**174,729**

Level 2 comprise open-ended cash funds whose NAV is published on a daily basis.

Notes to the financial statements (continued)

37. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial instruments measured at fair value (continued)

The table below shows the reconciliation of initial and final financial instruments at level 3 of the fair value hierarchy.

	Securities	Loans and advances
As at 1 January 2022	**8**	-
Addition	(1)	-
Sales/Maturity	-	-
As at 31 December 2022	**7**	-

	Securities	Loans and advances
As at 1 January 2021	8	-
Additions	-	-
Sales/Maturity	-	-
As at 31 December 2021	**8**	-

When discounting cash flows of assets or liabilities, the Bank uses weighted average monthly interest rates on loans and advances, ie deposits.

In assessing fair value, the Bank uses the following methods:

Cash and accounts with banks, amounts with the Croatian National Bank

The carrying values of accounts with banks and amounts with the central bank approximate to their fair values, given the short maturity of these assets.

Placements with other banks

The estimated fair value of placements with banks represents the discounted amount of future cash flow receipts. Due to their short-term character, their fair value approximates to their carrying value.

Loans and advances to customers carried at amortised cost

Fair value is based on a discounted cash flows using currently applicable interest rates on loans for similar terms or similar credit characteristics. Most of the Bank's loan portfolio is approved at a variable interest rate. Using the discounting method of cash flows and interest (assuming that the loan is repayable according to the agreed terms and taking into account the existing specific provisions), there is a difference between the fair value of the loan portfolio and the carrying amount, resulting from higher interest rates of the Bank than those on the market. The fair value of loans to non-performing customers is estimated on the basis of a discounted cash flow analysis or the estimated value of the underlying security instrument. Estimated fair value of loans and advances to customers represents the discounted amount of expected future cash receipts. Expected future cash inflows are discounted using the market interest rate.

Notes to the financial statements (continued)

37. FAIR VALUE OF FINANCIAL ASSETS (continued)

Deposits from banks and customers

The fair value of term deposits payable on demand represents the carrying value of amounts payable as at the balance sheet date. The fair values of term deposits at variable interest rates approximate their carrying values as at the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using rates currently applied to deposits of similar remaining maturities. According to the discounted cash flows, it is concluded that the fair value does not differ significantly from carrying value. Most of the customers' deposits with fixed interest rates become due within one year and consequently their fair value does not significantly differ from their carrying value.

Borrowings

Due to its short-term nature, the carrying value approximates the fair value.

Subordinated debt

Considering that there are no similar investments on the market, the management believes that the carrying value of subordinated debt approximates its fair value.

Financial instruments not valued at fair value:

	31 December 2021		31 December 2022	
	Carrying value	Fair value (Level 3)	Carrying value	Fair value (Level 3)
FINANCIAL ASSETS				
Accounts with the CNB and credit institutions	251,007	251,007	242,923	242,923
Placements with other banks	476	476	-	-
Loans and advances to customers	351,196	351,196	283,447	292,163
Total financial assets	**602,679**	**602,679**	**526,370**	**535,086**
Deposits from customers	582,488	582,488	521,385	521,385
Deposits and borrowings from banks	52,485	52,485	6,669	6,669
Subordinated debt	42,552	42,552	22,604	22,604
Total financial liabilities	**677,525**	**677,525**	**550,658**	**550,658**

Notes to the financial statements (continued)

38. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Reconciliation of movements of liabilities to cash flows arising from financing activities:

[HRK'000]	1 January 2022	Cash flow	Foreign exchange movement	Other changes	31 December 2022
Borrowings	52,485	(45,823)	(7)	-	6,669
Lease liabilities	12,815	(2,328)	-	912	11,399
Subordinated debt	42,522	(52)	134	(20,000)	22,604
TOTAL	**107,842**	**(48,203)**	**127**	**(19,088)**	**40,672**

[HRK'000]	1 January 2021	Cash flow	Foreign exchange movement	Other changes	31 December 2021
Borrowings	8,054	44,426	5	-	52,485
Lease liabilities	715	(1,728)	-	13,828	12,815
Subordinated debt	47,104	(4,465)	(87)	-	42,552
TOTAL	**55,873**	**38,233**	**(82)**	**13,828**	**107,852**

Notes to the financial statements (continued)

39. IMPACT OF ECONOMIC ENVIRONMENT (war in Ukraine)

The invasion of Ukraine by the Russian Federation, and the consequent adoption of international sanctions against the Russian Federation and the Republic of Belarus, still represents a significant event that has affected the Bank's risk management, as well as general corporate governance in all related areas. Following the invasion and the adoption of international sanctions, the Bank conducted a detailed analysis of potential increased exposure to credit risk, market risks, liquidity risk, IT/cyber risks and risks related to the prevention of money laundering and terrorism financing.

The analysis resulted with a finding that the Bank has not established a business relationship with any legal or natural person of Russian or Belarusian nationality, and therefore in its passive business has no connection with these countries. By imposing sanctions, the Bank has strictly prescribed restrictive measures in the area of performing payment operations and establishing a new business relationship with persons originating from the above mentioned countries, where the same cannot be done without the consent of responsible persons who report directly to the Management Board.

From the aspect of liquidity risk, the Management Board assesses the level of liquidity as high. The movement of sources of funds, primarily deposits from the retail sector, is monitored on a weekly basis, and no significant negative impact on liquidity or prescribed liquidity indicators has taken place nor is it expected.

In the area of IT and cyber risk, the Bank has implemented additional safeguards to reduce the risk of cyber attacks, and there have been no attempts by third parties in this area.

With regard to market risks, the changes in securities prices held by the Bank in the FVOCI portfolio, are being monitored on a daily basis, and the effect of a possible decrease in securities prices on the Bank's capital, ie capital adequacy, and potential breach of regulatory maximum exposure limits is calculated and reported on a daily/weekly basis.

In terms of credit risk, a significant dependence of one client on the Ukrainian market has been identified as it generates the vast majority of its revenues in the Ukrainian market. At the same time, production complexes owned by the related company are located in Ukraine as well. Gross exposure to the client in question represents approximately 3,1% of the Bank's total assets as at 31 December 2022. In relation to the exposure in question, the Bank conducted stress testing in the area of capital adequacy, and it was determined that even in the event of a scenario of total loss on this exposure, the Tier 1 and total capital adequacy indicators remain significantly above the minimum levels prescribed by regulators. Therefore, the general assessment of the Management Board is that the event mentioned here does not lead to material effects, i.e. it does not raise a significant doubt about the Company's ability to continue as a going concern.

However, the political and economic environment still remains in a state of considerable uncertainty and the Management Board cannot rule out the possibility that a further prolonged period of Russian invasion of Ukraine could have an impact on reduced economic activity, rising inflation and deterioration of other macroeconomic indicators, whose effects could easily be transferred to the real sector, and subsequently cause a crisis of systemic proportions. Management is closely monitoring the situation and if necessary will undertake all available measures, in order to mitigate the potential adverse effects of any events or circumstances.

Additional reports for the Croatian National Bank

Supplementary financial statements prepared in accordance with the framework for reporting set out in the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions (Official Gazette 42/2018, 122/2020, 119/2021 and 108/2022) are presented below:

Additional reports for the Croatian National Bank (continued)

Balance sheet as at 31 December 2022

	2021	2022
Assets		
Cash, deposits with the Croatian National Bank and other demand deposits	214,352	242,828
Cash in hand	*8,021*	*7,014*
Deposits with the Croatian National Bank	*184,583*	*214,459*
Other demand deposits	*21,748*	*21,355*
Financial assets held for trading	-	-
Derivatives	-	-
Equity instruments	-	-
Debt securities	-	-
Loans and advances	-	-
Non-financial assets mandatorily measured at fair value through profit or loss	-	-
Equity instruments	-	-
Debt securities	-	-
Loans and advances	-	-
Financial assets designated at fair value through profit or loss	-	-
Debt securities	-	-
Loans and advances	-	-
Financial assets at fair value through other comprehensive income	174,729	118,026
Equity instruments	-	-
Debt securities	*174,729*	*118,026*
Loans and advances	-	-
Financial assets at amortized cost	388,496	283,626
Debt securities	-	-
Loans and advances	*388,496*	*283,636*
Derivatives – hedge accounting	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Investments in subsidiaries, joint ventures and associates	-	-
Tangible assets	15,532	14,117
Intangible assets	6,767	4,983
Tax assets	13	4
Other assets	6,739	914
Non-current assets and disposal groups classified as held for sale	6,305	-
Total assets	**812,933**	**664,508**

Additional reports for the Croatian National Bank (continued)

Balance sheet as at 31 December 2022 (continued)

	2021	2022
Liabilities		
Financial liabilities held for trading	-	-
Derivatives	-	-
Short positions	-	-
Deposits	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Deposits	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Financial liabilities measured at amortized cost	690,340	562,057
Deposits	*677,525*	*550,658*
Debt securities issued	-	-
Other financial liabilities	12,815	11,399
Derivatives – Hedge accounting	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Provisions	3,039	1,994
Tax liabilities	244	-
Share capital repayable on demand	-	-
Other liabilities	4,085	2,136
Liabilities included in disposal groups classified as held for sale	-	-
Total liabilities	**697,708**	**566,187**
Equity		
Share capital	307,085	327,085
Share premium	21,435	21,435
Equity instruments issued other than capital	-	-
Other equity	-	-
Accumulated other comprehensive income	631	(18,889)
Retained earning	(218,492)	(215.517)
Revaluation reserves	-	-
Other reserves	3,792	3,794
(-) Treasury shares	(2,202)	(2,202)
Profit or loss attributable to owners of the parent	2,975	(17,385)
(-) Interim dividends	-	-
Minority interests [Non-controlling interests]	-	-
Total equity	**115,225**	**98,321**
Total liabilities and equity	**812,933**	**664,508**

Additional reports for Croatian National Bank (continued)

Income statement for the period ended 31 December 2022

	2021	2022
Interest income	27,735	18,184
(Interest expense)	(4,876)	(4,045)
(Return on equity that is returned on demand)	-	-
Dividend income	-	-
Fee and commission income	3,374	5,000
(Fee and commission expense)	(757)	(481)
Gains or (–) losses on termination of recognition of financial assets and financial liabilities that are not measured at fair value through profit or loss, net	509	115
Gains or (–) losses on financial assets and financial liabilities held for trading, net	2,226	1,537
Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net	(16)	-
Gains or (–) losses on financial assets and financial liabilities at fair value through profit or loss, net	-	-
Gains or (–) losses from hedge accounting, net	-	-
Foreign exchange differences (gains or losses), net	150	(22)
Gains or losses on discounting nonfinancial assets, net	28	(17)
Other operating income	2,204	1,654
(Other operating expenses)	(1,020)	(384)
Total operating income, net	**29,557**	**21,541**
(Administrative expenses)	(22,425)	(19,554)
(Payment commitments to resolution funds and deposit guarantee schemes)	(8)	(332)
(Depreciation)	(5,120)	(4,625)
Gains or losses due to changes, net	-	-
(Provisions or cancellation of provisions)	(2,379)	(1,172)
Impairment or reversal of financial assets that are not measured at fair value through profit or loss	3,920	(14,218)
Impairment or reversal of investments in subsidiaries, joint ventures and associates	-	-
Creation or release of impairment of nonfinancial assets	(4,061)	-
Negative goodwill recognized in profit or loss	-	-
Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for by share method	-	-
Profit or loss from Non-Current Assets and Allocation Assets classified as held for sale that are not qualifying as non-going business	3,491	975
Profit or loss before operating taxes that will continue	**2,975**	**(17,385)**
Tax expense or income related to operating profit or loss that will continue	-	-
Profit or loss before operating taxes that will continue	**2,975**	**(17,385)**
Profit or loss before operating taxes that will not continue	-	-
Profit or loss before operating taxes that will not continue	-	-
Tax expense or income related to business that will not continue	-	-
Profit or loss for the year	**2,975**	**(17,385)**
It belongs to minority interest (non-controlling interest)	-	-
It belongs to the owners of the parent company	**-**	**-**

Additional reports for Croatian National Bank (continued)

Statement of Comprehensive Income for the Year Ended 31 December 2022

	2021	2022
Net profit/(loss) for the period	**2,975**	**(17,385)**
Other comprehensive income	**(1,823)**	**(19,519)**
Items which will not be subsequently reclassified in profit or loss	-	-
Tangible assets	-	-
Intangible assets	-	-
Actuarial gains or losses on pension plans under the sponsorship of the employer	-	-
Non-current assets and disposal groups intended for sale	-	-
Share of other recognized income and expenses from entities accounted by equity method	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	-	-
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Income tax relating to items that will not be reclassified	-	-
Items that are or may be reclassified to profit or loss	**(1,823)**	**(19,519)**
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	-	-
Cash flow hedges [effective portion]	-	-
Hedging instruments [not designated elements]	-	-
Debt instruments at fair value through other comprehensive income	(2,060)	(19,763)
Non-current assets and disposal groups held for sale	-	-
Share of other recognized income and expense of Investments in subsidiaries, joint ventures and associates	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	237	244
Total comprehensive income for the year	**1,152**	**(36,904)**
Attributable to minority interest (non-controlling interest)	-	-
Attributable to owners of the parent company	-	-

Additional reports for Croatian National Bank (continued)

Statement of cash flows for year ended 31 December 2022

	2021	2022
Business activities according to the indirect method		
Profit/(loss) before tax	2,975	(17,385)
Adjustments:		
Impairment losses	3,979	14,093
Depreciation and amortization	9,182	4,625
Unrealized (gains)/losses on securities at fair value through profit or loss	-	-
(Gains)/losses from sale of tangible assets	-	-
Other (gains)/losses	(150)	21
Changes in assets and liabilities due to operating activities		
Deposits with the Croatian National Bank	6,914	36,731
Deposits with banking institutions and loans to financial institutions	(123)	(69)
Loans and advances to other clients	75,134	53,635
Securities and other financial instruments at FVOCI	82,298	37,210
Securities and other financial instruments held for trading	-	-
Securities and other financial instruments at fair value through profit or loss which are not actively traded	31,393	-
Securities and other financial instruments mandatorily at FVTPL	-	-
Securities and other financial instruments at amortized cost	-	-
Other operating assets	8,137	8,691
Deposits from financial institutions	(1,476)	(1,221)
Other clients demand deposits	(36,172)	47,636
Other clients savings deposits	(28,935)	(38,109)
Other clients term deposits	(193,691)	(70,691)
Derivative financial liabilities and other liabilities held for trading	-	-
Other operating liabilities	(15,837)	(5,564)
Interest received from operating activities [indirect method]	-	-
Dividends received from operating activities [indirect method]	-	-
Interest paid from operating activities [indirect method]	-	-
(Income tax paid)	-	-
Net inflow/(outflow) of cash from operating activities	**(56,372)**	**69,602**

Additional reports for Croatian National Bank (continued)

Statement of cash flows for year ended 31 December 2022 (continued)

	2021	2022
Investing activities		
Cash receipts from/(payments to acquire) tangible and intangible assets	1,919	3,103
Cash receipts from the disposal of/(payments for the investment in) subsidiaries, associates and joint ventures	-	-
Cash receipts from sales of/(cash payments to acquire) securities and other financial instruments from investing activities	-	-
Dividends received from investing activities	-	-
Other receipts from/(payments for) investments	-	-
Net cash flow from investing activities	**1,919**	**3,103**
Financing activities		
Net increase/(decrease) in received loans from financing activities	45,099	(45,257)
Net increase/(decrease) in issued debt securities	-	-
Net increase/(decrease) in subordinated and hybrid instruments	(4,410)	(20,000)
Proceeds from issue of share capital	-	20,000
(Dividends paid)	-	-
Other proceeds/(payments) from financing activities	-	-
Net cash flow from financing activities	**40,689**	**(45,257)**
Net increase/(decrease) in cash and cash equivalents	**(13,764)**	**27,449**
Cash and cash equivalents at the beginning of the year	**227,719**	**214,827**
Effect of foreign exchange differences on cash and cash equivalents	873	652
Cash and cash equivalents at the end of the year	**214,828**	**242,928**

Additional reports for Croatian National Bank (continued)

Statement of changes in equity for year ended 31 December 2022

	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Other reserves	Treasury shares	Profit/loss attributable to owners of the parent company	Dividends for the financial year	Total
Initial balance (before restatement)	**307,085**	**21,433**	**631**	**(218,492)**	**3,794**	**(2,202)**	**2,975**	-	**115,224**
The effect of corrections of errors	-	-	-	-	-	-	-	-	-
The effect of changes in accounting policies	-	-	-	-	-	-	-	-	-
Initial state (current period)	**307,085**	**21,433**	**631**	**(218,492)**	**3,794**	**(2,202)**	**2,975**	-	**115,224**
Issuance of ordinary shares	20,000	-	-	-	-	-	-	-	**20,000**
Issuance of preferred shares	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-
Execution or expiration of other issued equity instruments	-	-	-	-	-	-	-	-	-
Converting debt to ownership instruments	-	-	-	-	-	-	-	-	-
Equity reduction	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity instruments to liabilities	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity instruments	-	-	-	-	-	-	-	-	-
Transfers between components of proprietary instruments	-	-	-	2,975	-	-	(2,975)	-	-
Increase or decrease in equity instruments as a result of business combinations	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-
Other enhancement or reduction of equity instruments	-	-	-	-	-	-	-	-	-
Total comprehensive income for the current year	-	-	(19,519)	-	-	-	(17,385)	-	**(36,904)**
Final state (current period)	**327,085**	**21,433**	**(18,888)**	**(215,517)**	**3,794**	**(2,202)**	**(17,385)**	-	**98,320**

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB

Reconciliation of balance sheet as at 31 December 2022

in '000 HRK

TOTAL ASSETS - Statutory financial statements		Funds with the CNB	Cash and due from banks	Placements with other banks	Financial assets securities	Loans and advances to customers	Property and equipment	Intangible assets	Other assets	ACCOUNT 296096	TOTAL ASSETS	Ordinal number
ASSETS Specific financial statements 31.12.2022												
1.	Cash, cash receivables from central banks and other demand deposits											
1.1.	Cash		7,014								**7,014**	**1**
1.2.	Cash receivables from central banks	214,459									**214,459**	**2**
1.3.	Other deposits		21,355								**21,355**	**3**
2	Financial assets held for trading											
2.1.	Derivatives											
2.2.	Equity instruments											
2.3.	Securities											
2.4.	Loans and advances											
3.	Non-trading financial assets that are measured at fair value through profit or loss											
3.1.	Equity instruments											
3.2.	Securities											
3.3.	Loans and advances											
4.	Financial assets at fair value through profit or loss											
4.2.	Securities											
4.3.	Loans and advances											
5.	Financial assets at fair value through other comprehensive income											
5.1.	Equity instruments											
5.1.	Securities				118,025						**118,025**	**4**
5.2.	Loans and advances											
6.	Financial assets at amortized cost											
6.1.	Securities											
6.2.	Loans and advances	95				283,447			94		**283,636**	**5**
7.	Derivatives - hedge accounting											
8.	Changes in the fair value of hedged items to hedge the portfolio of interest rate risk											
9.	Investments in subsidiaries, joint ventures and associates											
10.	Tangible assets						13,600		517		**14,117**	**6**
11.	Intangible assets							4,983			**4,983**	**7**
12.	Tax assets								4		**4**	**8**
13.	Other assets								914		**914**	**9**
14.	Non-current assets and disposal groups classified as held for sale											
TOTAL ASSETS		**214,554**	**28,369**	**0**	**118,025**	**283,447**	**13,600**	**4,983**	**1,529**		**664,507**	

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Reconciliation of balance sheet as at 31 December 2022

in '000 HRK

TOTAL LIABILITIES - Statutory financial statements		Client deposits	Borrowings	Hybrid instruments	Provision for liabilities and charges	Other liabilities	Deferred tax liability	Accumulated other comprehensive income	ACCOUNT 296096	TOTAL LIABILITIES Statutory	TOTAL LIABILITIES Specific	Ordinal number
LIABILITIES Specific financial statements 31.12.2022												
1.	Financial liabilities held for trading											
1.1.	Derivatives											
1.2.	Short positions											
1.3.	Deposits											
1.4.	Debt securities											
1.5.	Other financial liabilities											
2.	Financial liabilities at fair value through profit or loss											
2.1.	Deposits	521,385	6,669	22,604							**550,658**	**1**
2.2.	Debt securities											
2.3.	Other financial liabilities					11,399					**11,399**	**2**
3.	Financial liabilities measured at amortized cost											
3.1.	Deposits											
3.2.	Debt securities											
3.3.	Other financial liabilities											
4.	Derivatives - hedge accounting											
5.	Changes in the fair value of hedged items to protect the portfolio against interest rate risk											
6.	Provisions				1,759	235					**1,994**	**3**
7.	Tax liabilities											
8.	Capital that is returned on demand											
9.	Other liabilities					2,136					**2,136**	**4**
10.	Liabilities included in the disposal groups classified as held for sale											
TOTAL LIABILITIES		**521,385**	**6,669**	**22,604**	**1,759**	**13,770**	**0**	**0**		**566,187**	**566,187**	

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Reconciliation of balance sheet as at 31 December 2022

in '000 HRK

TOTAL CAPITAL AND RESERVES - Statutory financial statements		Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Accumulated losses	TOTAL CAPITAL AND RESERVES Statutory	TOTAL CAPITAL AND RESERVES Specific	Ordinal number
CAPITAL AND RESERVES Specific financial statements 31.12.2022										
1.	Share capital	327,085						**327,085**	**327,085**	**1**
2.	Share premium		21,433					**21,433**	**21,433**	**2**
3.	Issued equity instruments other than equity									
4.	Other proprietary instruments									
5.	Accumulated other comprehensive income					(18,889)		**(18,889)**	**(18,889)**	**3**
6.	Retained earnings						(215,516)	**(215,516)**	**(215,516)**	**4**
7.	Revaluation reserves									
8.	Other reserves		1		3,793			**3,794**	**3,795**	**5**
9.	Treasury shares			(2,202)				**(2,202)**	**(2,202)**	**6**
10.	Profit or loss belonging to the owners of the parent company						(17,385)	**(17,385)**	**(17,385)**	**7**
11.	Dividends for the financial year									
12.	Minority Shares (Non-controlling Shares)									
13.	Accumulated other comprehensive income - capital									
TOTAL EQUITY		**327,085**	**21,434**	**(2,202)**	**3,793**	**(18,889)**	**(232,901)**	**98,321**	**98,321**	

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Explanations for adjustments to the balance sheet of the Specific Financial Statements and the Core Financial Statements

ASSETS

1. Amount of cash (HRK 7,014 thousand) from the cash item in the Cashier's Special Financial Statements has been reclassified to item cash and accounts with Banks of the Basic Financial Statements.

2. Amount of deposits with the CNB (HRK 214,459) from the item monetary claims from central banks of the Special Financial Statements was reclassified to the item money and deposits with the CNB of the Basic Financial Statements.

3. Amount of other demand deposits (HRK 21,355 thousand) from item other demand deposits of the Special Financial Statements was reclassified to cash and bank accounts with the Basic Financial Statements.

4. Amount of non-tradable financial assets that are necessarily measured at FV through profit or loss (HRK 118,025 thousand) from the item financial instruments of the Special Financial Statements has been reclassified to financial assets - securities of the Basic Financial Statements.

5. Amount of financial assets at amortized cost (HRK 283,636 thousand) from the item loans and advances of the Special Financial Statements was reclassified to cash and deposits with the CNB (HRK 95 thousand), loans and advances to customers (HRK 283,447 thousand) and other assets (HRK 94 thousand) of the Basic Financial Statements.

6. Amount of tangible assets (HRK 14,117 thousand) from the item tangible assets of the Special Financial Statements was reclassified to property and equipment of the Basic Financial Statements (HRK 13,600 thousand), and to other assets (HRK 517 thousand).

7. Amount of intangible assets (HRK 4,983 thousand) from the item intangible assets of the Special Financial Statements is reclassified to the item intangible assets of the Basic Financial Statements.

8. Items 08,09 - tax assets, other assets and fixed assets classified as held for sale (HRK 918 thousand) Special Financial Statements are reclassified to other assets in the Basic Financial Statements.

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Explanations for adjustments to the balance sheet of the Specific Financial Statements and the Core Financial Statements (continued)

LIABILITIES

1. Amount of the financial liability at fair value through profit or loss (HRK 550,658 thousand) from the item deposits of the Special Financial Statements was reclassified to received loans (HRK 6,669 thousand), to customer deposits (HRK 521,385) and to the hybrid instrument item (22,604 thousand) of the Basic Financial Statements.

2. Amount (HRK 11,399 thousand) under other financial liabilities of the Special Financial Statements has been reclassified to other liabilities of the Basic Financial Statements.

3. Amount (HRK 1,994 thousand) under the provision of the Special Financial Statements has been reclassified to the provision for liabilities and expenses of the Basic Financial Statements.

4. Amount of other liabilities (HRK 2,136 thousand) was reclassified from the item other liabilities of the Special Financial Statements to the item other liabilities of the Basic Financial Statements.

EQUITY

1. Share capital (HRK 327,085 thousand) from the item share capital of the Special Financial Statements is reclassified to the item share capital of the Basic Financial Statements.

2. Share premium (HRK 21,433 thousand) of the Special Financial Statements is reclassified to premium on the issued shares of the Basic Financial Statements.

3. Item accumulated other comprehensive income (HRK -18,889 thousand) of the Special Financial Statements was reclassified to the fair value reserve item of the Basic Financial Statements.

4. Amount of retained profit - loss (-215,516 thousand kuna) from the item retained profit of Special Financials Statements, and the item profit-loss belonging to the owners of the parent company (17,385 thousand kuna) of Special financial statements, was reclassified to the item accumulated losses of Basic financial statements in the amount of (- HRK 232,902 thousand).

5. Amount of reserves (HRK 3,795) from the item other reserves of the Special Financial Statements was reclassified to the item other reserves of the Basic Financial Statements in the amount of (HRK 3,794), and to the item Premium on issued shares in the amount of (HRK 1).

6. Treasury stock item (HRK -2,202 thousand) of the Special Financial Statements has been reclassified to Treasury stock item of the Basic Financial Statements.

7. Amount of profit or loss (HRK -17,385 thousand) from the profit or loss item belonging to the owners of the parent company is reclassified to the item accumulated losses-gains of the Basic Financial Statements.

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Reconciliation of the Income statement as at 31 December 2022

in '000 HRK

	PROFIT AND LOSS ACCOUNT- Statutory financial statements I-XII 2022	Interest income and similar income	Interest expense and similar expense	Fee and commission income	Fee and commission expense	Realized gains net of losses on securities	Gains less losses on foreign exchange gains	Other income	Employees costs	Depreciation and impairment of goodwill	Other operating expenses	Impairment costs and provisions	Income tax	PROFIT (LOSS)	TOTAL	Ordinal number
1.	Interest income	18,184													**18,184**	**1**
2.	Interest expense		(4,045)												**(4,045)**	**2**
3.	Return on equity that is returned on demand															
4.	Dividend income															
5.	Fee and commission income			5,000											**5,000**	**3**
6.	Fee and commission expense				(481)										**(481)**	**4**
7.	Gains or losses on termination of recognition of financial assets and financial liabilities that are not measured at fair value through profit or loss, net					115									**115**	**5**
8.	Gains or losses on financial assets and financial liabilities held for trading, net						1,537								**1,537**	**6**
9.	Gains or losses on financial assets not traded measured at fair value through profit or loss, net															
10.	Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net															
11.	Gains or losses from hedge accounting, net															
12.	Foreign exchange differences (gains or losses), net	(287)	293					21			(23)	(26)			**(22)**	**7**
13.	Gains or losses on discontinuing nonfinancial assets, net							(17)							**(17)**	**8**
14.	Other operating income							1,654							**1,654**	**9**
15.	Other operating expenses										(384)				**(384)**	**10**
16.	**TOTAL OPERATING INCOME, NET**															
17.	Administrative expenses								(12,797)		(6,757)				**(19,554)**	**11**
18.	Contribution in cash to resolution committees										(332)				**(332)**	**12**
19.	Depreciation									(4,516)	(109)				**(4,625)**	**13**
20.	Gains or losses due to changes, net															
21.	Provisions or cancellation of provisions											(1,172)			**(1,172)**	**14**
22.	Impairment or impairment of an impairment of a financial asset that is not measured at fair value through profit or loss			(4)								(14,214)			**(14,218)**	**15**
23.	Impairment or impairment of investments in subsidiaries, joint ventures and associates															
24.	Impairment of or impairment of impairment of non-financial assets															
25.	Negative goodwill recognized in profit or loss															
26.	Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for by share method															
27.	Profit or Loss from Non-Current Assets and Allocation Assets classified as held for sale that are not qualifying as non-going business															
28.	**PROFIT OR LOSS BEFORE TAX FROM OPERATIONS TO BE CONTINUED**															
29.	Tax expense or income related to operating profit or loss that will continue															
30.	**PROFIT OR LOSS AFTER TAX FROM OPERATIONS TO BE CONTINUED**															
31.	**Profit or loss after taxation from operations that will not continue**							975							**975**	**16**
31.1.	Profit or loss before operating tax that will not continue															
31.2.	Tax expense or income related to business that will not continue															
32.	**PROFIT OR LOSS FOR THE YEAR**	**17,897**	**(3,752)**	**4,996**	**(481)**	**115**	**1,537**	**2,633**	**(12,797)**	**(4,516)**	**(7,605)**	**(15,412)**	**0**	**(17,385)**	**(17,385)**	
33.	It belongs to minority interest (non-controlling shares)															
34.	It belongs to the owners of the parent company															

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Explanations for adjustments of the Income statement for CNB reporting and the Statutory Financial Statements (continued)

1. Amount of interest income (HRK 18,184 thousand) from the item interest income, and the item foreign exchange difference (profit or loss) net (HRK -287 thousand) is reclassified to interest income (HRK 17,897 thousand) of the Basic Financial Statements.

2. Interest expense (HRK -4,045 thousand) from the item interest expense and the item foreign exchange difference (profit or loss) net (HRK 293 thousand) has been reclassified to interest expense (HRK -3,752 thousand) of the Basic Financial Statements.

3. Amount of fee income (HRK 5,000 thousand) from the item fee and commission income, and item impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (HRK 4 thousand) is reclassified in item fee income (HRK 4,996 thousand) of the Basic Financial Statements.

4. Fee and commission expense (HRK -481 thousand) in the Special Financial Statements has been reclassified to fee and commission expense in the Basic Financial Statements.

5. Gains or losses upon derecognition of financial assets and financial liabilities that are not measured at fair value through profit or loss, net (HRK 115 thousand), is reclassified to the item realized gains minus losses from securities of the Basic Financial Statements

6. Gains or losses on financial assets and financial liabilities held for trading, net (HRK 1,537 thousand) of the Special Financial Statements, is reclassified to the item Gains less exchange rate differences and trading in foreign currencies of the Basic Financial Statements.

7. Foreign exchange rate differences (profit or loss), net in the amount of HRK -22 thousand of the Special Financial Statements, reclassified to the item Interest income (HRK -287 thousand), to interest expenses (HRK 293 thousand), to the item other income (HRK 21 thousand) kuna) and in the item depreciation costs and value of reservations (-26 thousand kuna) and in the item other operating expenses (-23 thousand kuna) of the Basic Financial Statements.

8. Gains or losses on derecognition of non-financial assets, net in the amount of (HRK -17 thousand) of the Special Financial Statements, were reclassified to other income of Basic Financial Statements.

9. Other operating income (HRK 1,654 thousand) Special Financial Statements has been reclassified to other income of the Basic Financial Statements.

10. Other operating expenses (HRK -384 thousand) Special Financial Statements has been reclassified to other operating expenses of the Basic Financial Statements.

11. Administrative expenses (HRK -19,554 thousand) Special Financial Statements has been reclassified to employee expenses (HRK -12,797 thousand) and to other operating expenses (HRK -6,757 thousand) of the Basic Financial Statements.

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Explanations for adjustments of the Income statement for CNB reporting and the Statutory Financial Statements

12. Cash contributions to the resolution committee (HRK -332 thousand) Special Financial Statements have been reclassified to other operating expenses of the Basic Financial Statements.

13. Depreciation (HRK -4,625 thousand) Special Financial Statements has been reclassified to Depreciation and impairment of goodwill (HRK -4,516 thousand) and to other operating expenses (HRK -109 thousand) of the Basic Financial Statements.

14. Provisions or cancellations of provision (-1,172 thousand HRK) Special Financial Statements has been reclassified to Impairment costs and provisions of the Basic Financial Statements.

15. Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (HRK -14,218 thousand) Special Financial Statements has been reclassified to Impairment costs and provisions (HRK -14,214 thousand) and to Fee income and commission (HRK -4 thousand) of the Basic Financial Statements.

16. Gains or losses on fixed assets and disposal groups classified as intended for sale that do not qualify as operations that will not continue in the amount of (HRK 975 thousand) of the Special Financial Statements has been reclassified to other operating income of the Basic Financial Statements.

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Reconciliation of comprehensive income statement as at 31 December 2022

in '000 HRK

REPORT ON OTHER COMPREHENSIVE INCOME		Profit (loss) for the year	Unrealized gains on securities assets, net of realization	Deferred tax on financial assets of securities	Deferred tax on financial assets securities	**Total comprehensive profits**	Ordinal number
1.	**Profit or loss**	(17,385)				**(17,385)**	
2.	**Other comprehensive income**						
2.1.	**Items that will not be reclassified to profit or loss**						
2.1.1.	Tangible assets						
2.1.2.	Intangible assets						
2.1.3.	Actuarial gains or losses on pension plans under the sponsorship of the employer						
2.1.4.	Non-current assets and disposal groups intended for sale						
2.1.5.	Share of other recognized income and expense of entities that are accounted for by the equity method						
2.1.6.	Changes in fair value of equity instruments measured at fair value through other comprehensive income						
2.1.7.	Gains or losses on hedge accounting of equity instruments measured at fair value through other comprehensive income, net						
2.1.8.	Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)						
2.1.9.	Changes in fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)						
2.1.10.	Changes in the fair value of financial liabilities measured at fair value through profit or loss attributable to changes in credit risk						
2.1.11.	Income tax relating to items that will not be reclassified						
2.2.	**Items that can be reclassified to profit or loss**						
2.2.1.	Hedges of a Net Investment in a Foreign Operation (effective share)						
2.2.2.	Conversion of foreign currencies						
2.2.3.	Protect Cash Flow (Effective Share)						
2.2.4.	Hedging instruments (elements which are not specified)						
2.2.5.	Debt instruments at fair value through other comprehensive income		(19,765)		2	**(19,763)**	1
2.2.6.	Non-current assets and disposal groups intended for sale						
2.2.7.	Share of other recognized income and expenses from investments in subsidiaries, joint ventures and associates						
2.2.8.	Income taxes relating to items that may be reclassified profit and loss			244	(171)	**244**	2
3.	**Total comprehensive income**	(17,385)	(19,765)	244	(169)	**(36,904)**	
4.	It belongs to minority interest (non-controlling interest)						
5.	It belongs to the owners of the parent company				(37,075)		

1. Amount of (HRK -19,763 thousand) from the item debt instruments at fair value through other comprehensive income of the Special Financial Statements is reclassified to the item unrealized gains on securities assets, net of the realization of the Basic Financial Statements.

2. Amount of (HRK 244 thousand) from item Income tax, which refers to items that can be reclassified as profit or loss in Special Financial Statements, was reclassified to the item deferred tax on financial assets and securities in the Basic Financial Statements.

Reconciliation of the Statement of cash flows in statutory financial statements with the supplementary schedules for CNB

The differences in the cash flow statement published in the annual report and that defined by the CNB's prescribed structure and content are caused by the different methodology of these two reports. Cash flow elaboration on items of operational, investment and financial activities is also different due to different starting points in cash flow presentation.

Announcements pursuant to Article 164 of the Credit Institutions Act

1) J&T banka d.d. is registered for the following activities:

- Accepting deposits or other repayable funds from people and approving credits from those funds, for own account,
- accepting deposits and other repayable funds,
- approval of loans and credits, including consumer credits and loans, and mortgage credits and loans, if it is allowed by a special law, and financing commercial activities, including export financing based on discount repurchase and without reimbursement of long-term unmatured claims ensured by financial instruments (forfeiting);
- purchase of receivables with or without recourse (factoring),
- financial lease,
- issuing guarantees and other warrants,
- trading for own account or for the client's account:
    - money market instruments,
    - transferable securities,
    - foreign currencies, including exchange transactions,
    - financial futures and options,
    - currency and interest rate instruments,
- payment services in line with special laws;
- services related to crediting, e.g. collection of data, conducting analyses and providing information on creditworthiness of legal and natural persons who conduct business activities on their own;
- issuing other payment instruments and managing them, in line with a special law, unless provision of these services is not considered provision of payment services in line with special laws;
- renting safe boxes;
- mediation in money market transactions;
- investments and other services and activities in accordance with separate laws regulating capital markets, as follows:
    - trading for own account.

As at 31 December 2022, the Bank operates through 2 branches (Varaždin, Zagreb).

The Bank mainly carries out its business activities in the territory of the Republic of Croatia while only a small part of its business is carried out with non-residents.

1) The total revenue of the Bank for 2022 amounted to HRK 27,466 thousand.
2) The Bank employs 52 full-time employees.
3) Net loss in 2022 amounted to HRK 17,385 thousand and the Bank did not have any obligation to pay tax on profit.
4) The bank have not received public subsidies during 2022.