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Privredna banka Zagreb d.d.

Annual report

31 December 2023

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

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Table of contents

Introduction

The Management Board of Privredna banka Zagreb d.d. has the pleasure of presenting its Annual report to the shareholder of the Bank. This comprises a summary of financial information, Management Board reports for the Bank and the Group, the audited financial statements and the accompanying audit report, supplementary forms required by local regulation and other information.

Audited financial statements are presented for the Group and the Bank.

Croatian and English version

This document comprises the Annual Report which also includes separate and consolidated financial statements of Privredna banka Zagreb d.d. for the year ended 31 December 2023 in the English language. This report is also published in the Croatian language for presentation to shareholder at the Annual General Meeting.

Legal status

The separate and consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by European Union (hereinafter: EU) and audited in accordance with International Standards on Auditing.

The Annual Report is prepared in accordance with the provisions of the Companies Act and the Accounting Law, which require the Management Board to report to shareholder of the company at the Annual General Meeting.

Abbreviations

In this Annual Report, Privredna banka Zagreb d.d. is referred to as “the Bank” or “PBZ” or as “Privredna banka Zagreb”, and Privredna banka Zagreb d.d., together with its subsidiaries and associate undertakings are referred to collectively as “the Group” or “the Privredna banka Zagreb Group”.

The central bank, the Croatian National Bank, is referred to as “the CNB”. The European Bank for Reconstruction and Development is referred to as “EBRD”. The European Central Bank is referred to as “ECB”.

In this report, the abbreviations “EUR thousand”, “EUR million”, “EUR billion”, “USD thousand”, “USD million”, “USD billion”, “CHF thousand”, “CHF million”, “CHF billion” and "BAM thousand", "BAM million", “BAM billion” represent thousands, millions and billions of Euros, US dollars, Swiss francs and Bosnian convertible marks respectively.

Exchange rates

The following mid exchange rates set by the CNB ruling on 31 December 2023 have been used to translate balances in foreign currency on that date:

USD 1	=	1.1050 EUR
CHF 1	=	0.9260 EUR
BAM 1	=	1.95583 EUR

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Introduction (continued)

Who we are and what we do?

We are a leading Croatian financial services group engaged in retail and corporate banking, credit card operations, investment banking, private banking, leasing, investment management services and real estate activities. We operate in the entire area of Croatia, Slovenia and in Bosnia and Herzegovina and employ over four thousand people.

Our mission is to permanently and effectively utilize all of the resources at our disposal to continuously improve all aspects of our business activities, including human resources, technology and business processes.

Our vision is to be a model company and centre of excellence in creating new value, as well as provision of high-quality service in all of our activities for the benefit of our clients, the community, our shareholder and our employees.

1,983 thousand TOTAL CUSTOMERS **1,955 thousand** CURRENT ACCOUNTS	**EUR 30.8 billion** TOTAL CUSTOMERS' FUNDS* **EUR 10.8 billion** ASSETS UNDER CUSTODY	**761,596** INTERNET BANKING USERS **225** TOTAL BRANCHES
894 ATM MACHINES **149** DAY AND NIGHT VAULTS	**EUR 14.1 billion** TOTAL GROSS LOANS **EUR 3.6 billion** TOTAL GROSS HOUSING LOANS	**2,721 thousand** TOTAL CARDS ISSUED **8,616** EFT POS

**Comprises customers deposits, assets under management and assets under custody*

Introduction (continued)

Five-year summary and financial highlights

(in EUR million)

Group	2023	2022	2021*	2020*	2019*
Income statement and statement of financial position					
Total gross revenue	1,109	681	660	644	769
Net interest income	633	336	338	347	378
Net operating income	987	595	582	570	661
Net profit for the year	472	194	187	136	234
Total assets	21,687	20,882	18.755	17.026	15.844
Loans and advances to customers	11,907	11,141	10.467	9.963	9.481
Due to customers	17,258	16,816	1.463	13.197	12.076
Shareholders' equity attributable to equity holders of the Bank	2,640	2,372	2.358	2.316	2.193
Other data (as per management accounts)					
Return on average equity	16.32%	7.45%	7.00%	5.40%	9.80%
Return on average assets	2.16%	0.93%	1.00%	0.76%	1.33%
Assets per employee	4.4	4.3	3.8	3.4	3.0
Cost income ratio	35.59%	47.97%	46.00%	45.90%	42.20%

(in EUR million)

Bank	2023	2022	2021*	2020*	2019*
Income statement and statement of financial position					
Total gross revenue	727	498	462	450	605
Net interest income	473	252	261	272	294
Net operating income	645	441	413	404	537
Net profit for the year	314	190	148	108	253
Total assets	16,153	15,830	13,919	12,727	11,749
Loans and advances to customers	8,271	7,699	7,162	6,789	6,340
Due to customers	12,839	12,679	10,790	9,706	8,853
Shareholders‘ equity attributable to equity holders of the Bank	2,254	2,115	2,077	2,063	1,970
Other data (as per management accounts)					
Return on average equity	14.60%	9.13%	7.00%	5.40%	13.40%
Return on average assets	1.92%	1.20%	1.07%	0.85%	2.11%
Assets per employee	4.8	4.7	3.6	3.3	3.1
Cost income ratio	31.50%	42.07%	41.60%	42.30%	32.90%

**comparative periods were translated to EUR using middle exchange rate EUR/HRK issued by CNB at balance sheet date*

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Report from the President of the Supervisory Board

On behalf of the Supervisory Board of Privredna banka Zagreb, I am honoured to present you the business results of the Bank and the Group for the year 2023.

The past year in Croatia will remain recorded primarily as the year of farewell to the Croatian kuna, i.e. as the first year of use of the new currency – the euro, and the year of accession to the Schengen area. But the past year will also remain marked in domestic memory by still high inflation, but also by solid economic growth – faster than the EU average. The turbulent geo-political environment that culminated in conflict in the Middle East at the end of the year, climate change and natural disasters, artificial intelligence, uncertain and exhausting war in Ukraine, slowdown in China – are just some of the hallmarks of the year behind us. From an economic point of view, this is a year in which, despite the unprecedentedly strong and rapid tightening of monetary policies on both sides of the Atlantic, we neither faced a recession in the USA, nor ultimately a "real" recession in the euro area, regardless of the pronounced walk on the edge, especially in the second half of the year.

Despite the challenging environment, the Croatian economy in the first three quarters of 2023 continued to record more than solid year-to-year growth rates of gross domestic product, thus accelerating convergence towards the EU average.

The hallmark of the past year in the domestic economy continued to be the high inflation rate, with a noticeable disinflation trend recorded during the second half of the year.

A tense labour market characterised by labour shortages and historically low unemployment prompted acceleration in wage growth, which combined with a slower inflation rate resulted in average real wage growth. The return of real growth in the average net wage was also reflected in the recovery of retail trade turnover, i.e., on the strengthening of household consumption, especially in the second part of the year.

The weakening of foreign demand became particularly pronounced during the third quarter of 2023, when exports of goods recorded a real contraction and a slight decrease was also recorded in the export of services. At the same time, total imports posted a contraction of -4.7%.

While, after an annual growth of 1.6%, or 2.6% in the first and second quarter, the third quarter brought an acceleration of economic growth to 2.8%, quarterly growth slowed to only 0.3%, but available monthly data suggest a strengthening of economic growth in the last quarter of 2023. At the same time, proportionally positive developments were also recorded by survey confidence indicators, including industry confidence and consumer confidence, which in November reached its highest level in the last two years.

In this challenging environment the PBZ Group excelled at improving its business and controlling risks arising from its transactions. We coped more than adequate, thus fully protected our capital base, deposits and liquidity. This best result ever was achieved by application of our long-term strategy built around conservatism in identification and measurement of all risks arising from our daily operations and full dedication to client-oriented approach in all stages of our activities. Moreover, the PBZ Group maintains a comfortable structural liquidity position, given its stable customer deposit base, appropriate sources of long-term funding and its shareholders equity. Mix of all those elements enabled us to be truly proud of the strength and resiliency that have been proven in such circumstances. We succeeded in both retaining the value of our Group and giving contribution to the society in which we operate.

As a result of our proactive credit risk management and execution of well-defined and timely-adjusted collection strategies have managed to bring the non-performing loans share to the lowest level since it began to be measured.

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Report from the President of the Supervisory Board (continued)

During 2023 we placed special attention to shaping ourselves into becoming prominent partner to the local economy. We are constantly focused on enhancement of our services and development of new and innovative products. Hence, we increased our placements in all business segments where we operate. I am specially satisfied that despite the previously mentioned challenging market conditions we managed to preserve the placements in small and medium enterprises as well as in large corporate segment.

Total gross revenue for the PBZ Group amounted to EUR 1,109 million. Consolidated net operating income equalled EUR 987 million, whereas net profit recorded EUR 472 million (EUR 437 million attributable to the equity holders of the Bank). Our cost/income ratio, an efficiency key measure, equals enviable 35.6%, while the return on average equity reached 16.3%. These are all exceptional figures consistently representing strong performance throughout the years.

In 2023 the PBZ Group further reinforced its position as one of Croatia's foremost banks in terms of productivity, returns and value creation for its shareholders. We are the second largest group in the country with a strong customer base. Both revenues and profitability in the PBZ Group are well balanced in all market segment thus successfully mitigating any burdens that concentration risk might impose.

Apart from this, I am proud to report that the PBZ Group is very committed to the role of being socially responsible company and an important member of business community in the country.

Consequently, both the Bank and the Group have a proactive role in encouraging corporate social responsibility initiatives and projects, with constant dedication to supporting the local community. We are the leading donor in the country and unrivalled among peers regarding donations to healthcare institutions Among our corporate social responsibility projects, I would like to single out our Visa Card with a Heart project, unique in the country, which supports our Doing Good Every Day initiative. Last year we celebrated the fifteenth anniversary of this humanitarian initiative which has served to continuously support national, long-term projects for the well-being of children and young people, while also responding to our society's current needs. Within this project our Group has so far made 80 donations to paediatric departments and children's hospitals and homes for children and youth throughout Croatia.

Also, in addition to helping children and young people, we have started a new project called "Helping children, helping the Earth", whose goal is to equip children's homes with electric vehicles, to enrich this initiative with a new ESG component - care for the environment.

Looking ahead, the present economic climate suggests that the respective environment in 2024 will nevertheless remain challenging. Therefore, a continued focus by management on overseeing asset quality, maintaining optimal product mix as well as an active monitoring of operating costs will be crucial. We have the ability to overcome the near-term challenges. Furthermore, we are well positioned to earn benefits from the present and future trends in growing integration of the Croatian market into the global financial markets. Given our business model, these trends present a significant growth opportunity for us.

Neosjetljivo - Non-sensitive

Report from the President of the Supervisory Board (continued)

On behalf of the Supervisory Board, I would like to express my gratitude and appreciation to all the employees of the Group for their commitment and valued contribution. I would also like to thank the Management Board for its strong leadership and outstanding performance. Finally, I want to express my great appreciation of the work of my colleagues on the Supervisory Board, as well as of the Audit Committee members, for their wise counsel and contribution.

Ignacio Jaquotot

President of the Supervisory Board

13 February 2024

Management Board report of the Status of the Bank

Distinguished shareholder,

I am honoured to present you the Annual Report and Financial Statements of Privredna banka Zagreb and the PBZ Group for the year ended on 31 December 2023.

The eventful 2023 in Croatia will remain recorded primarily as the year of farewell to the Croatian kuna, i.e. as the first year of use of the new currency – the euro, and the year of accession to the Schengen area. But the past year will also remain marked in domestic memory by still high inflation, but also by solid economic growth – faster than the EU average. The turbulent geopolitical environment that culminated in conflict in the Middle East at the end of the year, climate change and natural disasters, artificial intelligence, uncertain and exhausting war in Ukraine, slowdown in China – are just some of the hallmarks of the year behind us. From an economic point of view, this is a year in which, despite the unprecedentedly strong and rapid tightening of monetary policies on both sides of the Atlantic, we neither faced a recession in the USA, nor ultimately a "real" recession in the euro area, regardless of the pronounced walk on the edge, especially in the second half of the year.

Since the beginning of 2023, real economic activity in the euro area has largely stagnated. Thus, after modest achievements in the first part of the year, during the summer months there was a slight contraction of economic activity, and most of the current projections for the last quarter of this year indicate a continuation of similar developments. The weak developments in the euro area economy are mainly due to deteriorating developments in industry and construction sector. But this has not yet had a noticeable impact on the labour market, which remains very strong with widespread labour shortages and pronounced growth in nominal wages. At the same time, consumer price inflation in the euro area slowed from a peak of 10.5% recorded in October 2022 to 2.9% in December, supported by falling energy prices.

In the strongest cycle of monetary policy tightening in the euro area since the introduction of the euro, the Governing Council of the European Central Bank (ECB) raised key interest rates by an additional 200 basis points in 2023, which concluded a cycle of interest rates hikes. In addition to standard measures, the ECB further tightened monetary policy also by gradually reducing the Eurosystem's balance sheet.

We are nurturing cautious optimism that our and surrounding economies will recover in the forthcoming period, so we have continued tailoring our business strategy accordingly. As we have consistently been proving our operations to be resilient and sound, we remained strong and agile and readily faced all challenges brought by this troubled economic and social environment. Therefore, Privredna banka Zagreb and its subsidiaries, supported by our strategic partner Intesa Sanpaolo, managed to outperform our peers in majority of the most relevant business aspects. We continued executing our adaptable business strategy built around customer relations and well-diversified source of income, thus keeping a steady course, and reflecting the ability to stabilize our earnings power. All our business segments managed to cope extremely well with the surrounding conditions. Supplementary to this, we have been investing significant effort into shaping ourselves into well-capacited, experienced and agile entity able to conduct exceptional management of non-performing loans. Our proactive credit risk management and execution of well-defined and timely-adjusted collection strategies resulted with material decrease of non-performing loans portfolio compared to the previous year. We managed to reach the historically all-time-low level (since measured) of non-performing loans ratio (3.2% on the PBZ Group level), whereat NPL reduction was driven with strong cash collection and significant amount of clients who have successfully exited from NPL status, mostly notable in PBZ Retail segment, confirming strong effort on returning clients to performing status as one of the key collection strategies.

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Management Board report of the Status of the Bank (continued)

Outlook

Despite the challenging environment, the Croatian economy in the first three quarters of 2023 continued to record more than solid year-to-year growth rates of gross domestic product, thus accelerating convergence towards the EU average.

The hallmark of the past year in the domestic economy continued to be the high inflation rate, which dropped from an average of 10.8% recorded in 2022 to an average of 8% during 2023, with a noticeable disinflation trend recorded during the second half of the year.

A tense labour market characterised by labour shortages and historically low unemployment prompted acceleration in wage growth, which combined with a slower inflation rate resulted in average real wage growth of 3.8% (compared to -2.8% in the same period of 2022). The return of real growth in the average net wage was also reflected in the recovery of retail trade turnover, i.e., on the strengthening of household consumption, especially in the second part of the year.

The weakening of foreign demand became particularly pronounced during the third quarter of 2023, when exports of goods recorded a real contraction and a slight decrease was also recorded in the export of services. At the level of the first three quarters, exports of goods recorded a real decline of 9.9%, while exports of services (tourism) due to an excellent pre-season recorded an increase of 4.6%. At the same time, total imports posted a contraction of -4.7%.

While, after an annual growth of 1.6%, or 2.6% in the first and second quarter, the third quarter brought an acceleration of economic growth to 2.8%, quarterly growth slowed to only 0.3%, but available monthly data suggest a strengthening of economic growth in the last quarter of 2023. At the same time, proportionally positive developments were also recorded by survey confidence indicators, including industry confidence and consumer confidence, which in November reached its highest level in the last two years.

Consolidated financial results

The consolidated net profits for 2023 amounted to EUR 472 million, proving our continuation in achieving remarkable results, despite operating amid the burdensome and murky economic environment. This best result ever came from carefully planned and precisely executed business strategy that encompasses execution of conservative and systematic approach towards all risks arising from the business transactions, especially credit risk as well as already proven dedication to client orientation and diversification of income sources.

We managed to control risks arising from our operations. This achievement is stemming from our commitment to focus on enhanced prevention activities and to manage non-performing part of our portfolio in flexible, prudent and swift manner allowing us to increase collection and improve restructuring process. Through the year, the PBZ Group constantly monitored and adjusted its risk profile in light of environmental changes, inflationary pressures and interest rate hikes, as well as our expectations for the future period, achieving notable results in managing of key risk indicators such as non-performing loans share, cost of risk, NPL coverage and risk weighted assets. This resulted with material decrease of the PBZ Group non-performing loans portfolio compared to the previous year (decrease by EUR 46.7 million) and decrease of non-performing loans ratio to 3.2% (from 3.8% at the beginning of the year), which is historically all-time-low level (since measured). Furthermore, this result was achieved even without planned NPL sale of unsecured exposures in Retail and PBZ Card, which was postponed waiting for new regulation to enter into force. Additionally, with proactive management of portfolio risks we managed to substantially control cost of risk, reaching 0.2% of average loan portfolio stock at the end of 2023, while simultaneously increasing the coverage of non-performing portfolio (increase for more than 6 p.p. throughout the year), thus making us well-fitted to meet all future challenges.

Management Board report of the Status of the Bank (continued)

Consolidated financial results (continued)

The Group's capital management policies and practices, among other tools, are based on an internal capital adequacy assessment process (ICAAP). In this process, the PBZ Group regularly identifies its risks and determines the amount of free available capital in both base and stress scenarios. I am pleased to report that the PBZ Group is one of the leading, well-capitalized banking groups in the country, with more than sufficient capital shield compared to internal capital requirement in both base and stress scenario.

Our Capital Adequacy Ratio sits comfortably above 20%, which is significantly higher than required by the regulation and determined within Supervisory Review and Evaluation Process. We believe that we are exceptionally well prepared for all possible risks that might arise in the forthcoming period.

Based on the methodology used for management reporting, the Group's return on average equity in 2023 reached 16.3%, while return on average assets stood at 2.2%. Assets per employee equalled EUR 4.4 million, whereas the cost to income ratio, according to the consolidated financial statements, was maintained at historically low 35.6%.

As a reflection of these events, the positive effect of our in-built-long-lasting client orientation, despite the existence of the unstable economic surroundings, had significant influence on net interest income and net fee and commission income. Equally important, undeterred by risky and excruciating macroeconomic habitat, our previously taken strategic decisions enabled us to additionally strengthen our capital base and secure stable liquidity sources thus reducing our costs of funding and allowing us to adopt customer driven practices that resulted in an improvement of our products and services.

Aligned with the above and in more details, our net interest income strongly increased compared to 2023. One reason for our increased revenues was the rise in global interest rates, from which we, like most of our peers, are benefitting. On the other hand, net fee and commission income remained stable and strongly contributed to our extraordinary results. Similarly, a relatively low level of costs of provisions is direct evidence of the quality of our non-performing loans management and strategy.

The balance sheet of the PBZ Group increased by 3.9%, amounting to EUR 21,687 million. The most significant portion of our assets are loans and advances to customers which we managed to increase by 6.9% compared to 2022 to the level of EUR 11,907 million, although faced with the negative shocks in the economic environment and prevailing lack of demand for loans caused by the erratic economic situation that affected our clients, especially in corporate segment. We continue practicing a well-diversified loan portfolio policy, having remotely higher volume of placements to retail customers on one side than placements to public and corporate clients on the other. Given our firm commitment to apply a prudent approach in risk identification and measurement, non-performing loans fell below 3.5% threshold, additionally indicating the quality of our non-performing loans management.

From the liabilities perspective, customer deposits mainly fund our balance sheet, where the retail segment plays the most significant role. In 2023, once again we experienced an upsurge in customer deposits by 2.6%, reaching the level of EUR 17,258 million, caused by high liquidity observable on the market and our reputation of being one of the most stable and client oriented financial group on the market. Capital adequacy ratio remained stable, and it is by far exceeding the prescribed threshold.

Neosjetljivo - Non-sensitive

Management Board report of the Status of the Bank (continued)

Unconsolidated financial results of the Bank

The Bank's net result in 2023 was EUR 314 million, representing a significant increase compared to the preceding year and the best result ever. Considering all the circumstances, this favourable result is stemming from careful planning and enduring execution of our business strategy and our ability to swiftly adopt to changes in our environment. This growth continues to be driven by the positive operating performance, particularly on the revenue side, and by the lower adjustments to loans. In a scenario of repeated hikes in key interest rates decided by the ECB from July 2022 onwards, the aggregate was confirmed driven by net interest income which increased by 87.7% compared to 2022, thus reaching the level of EUR 473 million. On the other hand, net fee and commission income remained stable. Clients continued placing their unfaltering trust in the Bank as a reliable partner and allocating funds to both a-vista and term deposits. Although, in most cases, the Bank offers lower interest rates compared to the competition, our market share in terms of total assets remains stable, and according to the latest data, stands at 20.5%, additionally corroborating the high quality of the business relationships between clients and the Bank. As we are widely recognized as steady and low-risk partner to all our clients, this further affirmed us to continue practicing our dedication to fulfilment of overall client requirements. This strategy was accompanied by efficient and omnipresent cost management enterprise carried within all organizational units enabling us to successfully control the expense side of our business. Hence, we were able to maintain our cost to income ratio at an enviable 31.5% (based on the methodology used for management reporting).

The overall Bank's balance sheet increased by 2%, reaching a level of EUR 16,153 million. Although the market shows fatigue in demand for loans in the corporate sector, due to reduction of inflationary pressures followed by an increase of financing costs, loans and advances to customers increased by notable 7.4%, amounting to EUR 8,271 million. Current accounts and deposits from customers slightly increased by 1.3%, reaching the level of EUR 12,839 million. Considering the total structure of the balance sheet, the relative portion of customer deposits amounts to 79.5%. The total loan to deposit ratio of the Bank equals 74.4% emphasizing the stability and conservative nature of our ventures.

Business segments

During 2023 the Bank additionally consolidated its role as a leader in new technologies, continuously developing new and innovative products and services, both for the citizens and corporate clients. Moreover, considerable effort was put into its transformation to become an entity entirely equipped for digital services. The content and availability of digital services on mobile and online platforms were thoroughly redesigned and significantly upgraded. This endeavour was carefully aligned with the adoption of new distribution model in branch offices promoting the execution of cash and simpler transactions in digital channels, simultaneously introducing changes in the branch office network to carry out more complex tasks quicker and more easily and to improve personal relationships with clients. This significantly simplifies the everyday banking experience for the clients and enables a wider range of products and services.

In the Bank vast majority of transactions are carried out electronically. The new digital banking platform is a multi-channel online and mobile banking concept with numerous innovative functionalities and possibility to personalize the application in accordance with the clients' needs and wishes. It is intended to ease the clients' daily banking experience and offer them a wider range of the products thus fully satisfying all their requirements.

Neosjetljivo - Non-sensitive

Management Board report of the Status of the Bank (continued)

Business segments (continued)

The demand for retail loans increased and the Bank managed to increase its Retail portfolio and market share of loans, by becoming an important provider of those services to the affluent and premium sub-segment clients as well, in addition to other initiatives. Privredna banka Zagreb finished the year as the leader in the retail loans, the volumes of all housing loans, including subsidised loans placed, with significant expanded offer of ESG loans, and with expand of distribution of Eurizon Capital S.A. UCITS funds, while maintaining a stable market share in deposits in a challenging year for many clients, demonstrating the confidence of our clients in the stability of the Bank. Wellbeing of our clients and our employees remained a top priority, with branches being modified according to the health and safety recommendations, and digital channels offering improved functionalities, enabling our clients to continually manage their finances utilizing the benefits of modern technologies.

Facing uneasy market conditions, Small Enterprises business segment managed to increase size of its portfolio, both loans (for 3%) and deposits (for 10%) compared to year before.

In Corporate segment, we are recognized in Croatian market for our excellence in providing technologically advanced and reliable transaction banking, as the leading equity and debt issue agent and book-runner, as market leader in arranging syndicated loans and as top ranked custodian. We pay special attention to the green and circular economy, trade finance business, factoring and leasing.

In addition to our sales business activities, we have also implemented various process improvements, primarily in the area of AML controls in order to improve business operations.

Extraordinary business events

In accordance with the announcement as of 2022 and after the company Nexi Croatia d.o.o. obtained all the necessary authorizations of payment schemes and competent authorities to perform card acquiring operations, on 1 March 2023, a new strategic partnership between PBZ Card (company member of the PBZ Group specialised in charge and credit cards business) and Nexi Croatia in the acquiring segment at points of sale began (more information on financial effect regarding this transaction is disclosed in Note 10 Other operating income). The joint approach of Nexi Croatia, a member of the Nexi Group – the leading European PayTech company and PBZ Card, the leading card company in Croatia, a part of the Intesa Sanpaolo Group, one of the leading banking groups in Europe, brought simple, fast and reliable payment solutions to the points of sale, already used by more than two million merchants across Europe.

Bearing in mind the long-term partnership relations, PBZ Card has retained an active role in the new model and continues to be the first point of contact for points of sale, and various sales and marketing activities give additional impetus to their sales achievements. In addition, the cooperation with a leading European PayTech company, such as Nexi, results with the advanced payment solutions to points of sale that will improve their business even more.

In the new card acquiring model, PBZ Card has remained in charge of concluding contracts on card acquiring and maintaining business relations with merchants, performing these tasks in the name and on behalf of Nexi Croatia. Nexi Croatia, on the other hand, as a new provider of card acquiring services, is focused on the development of products and functionalities of the acquiring network, devices and channels, as well as providing operational support for card acquiring. The new business model was implemented while ensuring continuity in the provision of card acquiring services at the points of sale of contractual partners/merchants, without the need for additional technological adjustments.

Neosjetljivo - Non-sensitive

Management Board report of the Status of the Bank (continued)

Corporate social responsibility

Both the Bank and the Group have a proactive role in encouraging corporate social responsibility initiatives and projects, with constant dedication to supporting the local community. We are the leading donor in the country and unrivalled among peers regarding donations to healthcare institutions Among our corporate social responsibility projects, I would like to single out our Visa Card with a Heart project, unique in the country, which supports our Doing Good Every Day initiative. Last year we celebrated the fifteenth anniversary of this humanitarian initiative which has served to continuously support national, long-term projects for the well-being of children and young people, while also responding to our society's current needs. Within this project our Group has so far made 80 donations to paediatric departments and children's hospitals and homes for children and youth throughout Croatia.

Also, in addition to helping children and young people, we have started a new project called "Helping children, helping the Earth", whose goal is to equip children's homes with electric vehicles, to enrich this initiative with a new ESG component - care for the environment.

The PBZ Group dominantly express its responsibility towards the local community through two streams: the donations to support sensitive categories, and the financial literacy initiative, which builds the foundations for responsible financial behaviour of future generations. The reasoning behind the latest derives from PBZ expertise, authenticity and commitment to sustainability. PBZ Financial Literacy Project, initiated as part of the Intesa Sanpaolo project "The Art of Saving", made us recognizable as a credible partner in the field of financial education in the community and by the Croatian schools. In 2023, 5 initiatives were conducted by the PBZ Edu-Volunteers, our trained colleagues who participate within strategic volunteering framework. These financial literacy initiatives brought together over 2,500 participants, predominantly students from primary and secondary schools across Croatia.

PBZ Forest, our green afforestation initiative continued for the third year in a row, consistently confirming our commitment to sustainable conservation and restoration of the environment. From the start of the initiative until the end of 2023, a total of 50,000 square meters were reforested with 7,500 seed bombs. In addition, we continuously raise awareness of the importance of sustainability, internally and externally, by marking appropriate dates and communication campaigns.

Furthermore, our activities toward employees are continuously being upgraded and in 2023 we implemented significant measures such as an increase of the minimum net basic salary, the introduction of new and an increase in existing payments and benefits, and the formal introduction of Smart Work concept. A significant contribution is also made through the PBZ Family Practices concept that contribute to the well-being of employees. Some of these measures are the introduction of part-time work with full pay after returning from parental leave, the possibility of working one shift after returning from parental leave, equalizing rights and providing all family benefits to adoptive and foster parents as well as biological parents, a day off for birthdays and first day of school and many others. The aforementioned measures have impacted our recognition and desirability as an employer, which is indicated by the lowest turnover rate on the banking market, but also by the return of former highly competent employees, of whom there were 16 in 2023. The overall quality of HR management is confirmed by the Top Employer certificate of the international Top Employer Institute and Employer Partner certificate by the Selectio.

The described initiatives are just the core of PBZ CSR framework and we are proud that dedication and quality of such approach have been externally recognized and awarded by the Euromoney as the best bank for CSR in Croatia for year 2023.

Management Board report of the Status of the Bank (continued)

Corporate social responsibility (continued)

Finally, it is necessary to highlight that the PBZ Group implemented and continuously develops much broader holistic ESG framework, that CSR is part of. The implemented ESG framework in the PBZ Group is aligned with regulatory requirements as well as with the governance model of Intesa Sanpaolo as the Parent Company. From governance model, through business targets and product catalogue, risk and credit framework, IT infrastructure to own emission plan, the PBZ Group integrates ESG steps in its everyday business processes, leading the way towards a sustainable future.

Briefly on the Bank's subsidiaries

In 2023, the PBZ Group members coped well with the overall economic conditions that resulted in positive financial outcomes. Therefore, PBZ Card d.o.o. achieved a net profit of EUR 103 million, PBZ Leasing d.o.o. EUR 2 million, whereas PBZ Croatia Osiguranje d.d., our jointly owned pension fund management company, earned a profit of EUR 3 million.

Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina, our subsidiary established in Bosnia and Herzegovina, earned EUR 14 million. Intesa Sanpaolo Bank d.d. Slovenia, our subsidiary in Slovenia, earned EUR 37 million attributable to the PBZ Group. Our foreign subsidiaries' strategic objectives are jointly planned on the PBZ Group level - progressing with multi-year plan of investments for the infrastructural and technological modernization, organizational changes in terms of increase of the competitiveness and faster reaction to market changes and continuous assessment of risk profile. Implementation of these objectives are already bearing fruits in current business result but also represent a solid foundation for the future events.

Conclusion

The PBZ Group is well-fitted not only to face up to challenges, but also to seize opportunities. We have a strong capital base, liquidity and funding positions, preparing us for potential market uncertainties and for tighter regulation. We are continuously transiting to a better balanced, more diversified and lower-risk business model.

I would like to take this opportunity to express gratefulness to all my colleagues and all employees of the PBZ Group for their dedication and true professionalism that enabled us safely to sail through these restless times. Furthermore, I would like to thank all our dear clients and business partners for putting their trust in our hands. Also, I would like to express my most sincere gratitude to all the members of the Supervisory Board and Colleagues working with the Parent bank for their support, cooperation, and encouragement in conducting our business affairs.

Dinko Lucić,

President of the Management Board

13 February 2024

Neosjetljivo - Non-sensitive

Management Board report of the Status of the Group

Financial Highlights of the Group

The economy slightly recovered in 2023 despite the continuation of the war in Ukraine, new conflicts in the middle East and the disturbance in maritime traffic at the end of the year. During 2023, reduction in the prices of energy products and the price of oil continued to fall, which affected the stagnation of the growth of prices of other goods and inflation. Economic growth due to the introduction of the euro as a new currency in the Republic of Croatia, interventions by the Government on three occasions with measures to mitigate inflation, historically low unemployment and a good tourist season, continued until the end of 2023, when inflation was 8% in compared to 2022, when it amounted to an average of 10.8%.

In such conditions, the financial system enabled the continuity and availability of its products and services to all customer structures through various distribution channels. At the same time, it was forced to make new recovery plans in crisis circumstances and adapt them to the new situation.

The stability and reliability of the PBZ Group has been proven in 2023 by its readiness to overcome crisis situations relying on its core values, primarily human potential and adaptability with the use of new technologies, innovation and service availability.

The economic activity in all three countries where the PBZ Group operates began to grow at the end of 2023, The Group's consolidated net profit in the amount of EUR 472 million, i.e. a growth of 143.3% compared to the previous year, was contributed by the increase in net interest income and other operating income. The increase in key interest rates from the ECB during 2023 by 2 p.p. also resulted in an increase in net interest income. The Group's other operating income recorded an increase of EUR 119 million based on the sale of part of the business of PBZ Card.

The Group's net interest income was EUR 633 million, which represents an increase of 88.4% compared to the previous year, primarily from banks, which recorded an increase of EUR 201 million, and from legal entities with an increase of EUR 63 million. It is the result of the increase of interest rates on placements and the high availability of financial resources on the market.

In contrast, net income from commissions and fees amounted to EUR 196 million at the end of the year and decreased by 8% compared to 2022 primarily due to a decline in net fee income from card business, which decreased by 28.2%. The decrease in net income from fees for card operations at the level of the PBZ Group is the expected result of the strategic partnership between PBZ Card and Nexi Croatia d.o.o., the leading PayTeh company in Europe, which came to life in March 2023. With this partnership, the company Nexi Croatia took over the sales performance of the card business, and PBZ Card remains a provider of payment transaction acceptance services in the name and on behalf of Nexi Croatia.

Impairment losses on loans and advances to customers increased 73.3% compared to the previous year, partly due to the increase in placement volume, other provision costs increased by 90%, mostly the segment of provisions for court cases. The risk management system has demonstrated its ability to adapt in extremely unfavourable economic trends and stressful situations. The share of bad placements to clients in total placements to clients decreased by 0.6 p.p. compared to the previous year.

PBZ Group's operating expenses increased by 5.8%, primarily other operating expenses, which recorded a growth of 20.7% due to the increase in the costs of energy products and services. With the increase in the deposit base, the costs of deposit insurance also increased compared to the previous year. PBZ Group's consecrates great attention to employees as the most important resource in their business, which was also reflected in increase 10.1% in employee costs.

Neosjetljivo - Non-sensitive

Management Board report of the Status of the Group (continued)

Financial Highlights of the Group (continued)

PBZ Group's policies and procedures in capital management are based, inter alia, on the Internal Capital Adequacy Assessment (ICAAP) process. In this process, the Group regularly identifies risks and determines the level of available capital in stress scenarios. The PBZ Group is one of the leading and well-capitalized banking groups in the country, with more than enough additional available capital in relation to the required level of internal capital in stress scenarios.

Based on the methodology used for management reporting, the return on average capital of the Group in 2023 was 16.3% with an increase of 8.8 p.p. compared to the previous year, while the return on average assets was 2.2% or increase by 1.3 p.p. compared to 2022. Assets per employee amounted to EUR 4.4 million with an increase of 2.3% compared to the previous year, and the cost income ratio according to the consolidated financial statements at the level of 35.6% is the result of strategic management at all levels of the Group's operations.

The PBZ Group's balance sheet grew by 3.9% in 2023 and amounted EUR 21,687 million due to increase in ECB interest rates and the consequent increase in client deposits as well as due to additional borrowing by members of the Group

Loans and advances to clients increased compared to the previous year by 6.9%, or by EUR 766 million. Placements to citizens before provisions recorded an increase of 9.9%. Business with corporate clients before provisions grew by 4.2%, and placements to the public sector and others grew by 1.7%. The implementation of the loan portfolio diversification policy continues, whereby in 2023 the highest growth in placements was recorded in the energy sector (15% growth) and with citizens. Freezing the prices of certain energy products in response to market disruptions in their supply affected the borrowing of the energy sector.

The increase in client deposits of 2.6% or EUR 422 million is the result of increased economic activity of legal entities. The largest increase was recorded in deposits of legal entities - the amount of EUR 488 million or 11.5%. Household deposits increased slightly compared to the previous year, while deposits of the public sector and others decreased by 3.4% or EUR 47 million. Bank deposits recorded a decrease of 45% or EUR 145 million compared to the previous year, mostly as a result of the activities on the introduction of the euro in Croatia and the closing of kuna accounts of foreign banks.

The members of the PBZ Group additionally borrowed EUR 64 million during 2023 wherefore interest-bearing borrowings increased by 10.9%.

Despite the still unstable environment and thanks to the previously adopted strategic decisions, the Group managed to further strengthen the capital base by 11.3% and secure stable sources of liquidity, which enables the maintenance of client-oriented practices.

Below we provide an overview of business results of the Bank's subsidiaries and associate. Presented business results are on a stand-alone basis, before intercompany and consolidation adjustments.

PBZ Card d.o.o.

The financial results of PBZ Card d.o.o. reflect the continuation of stable operations in 2023 as well.

The Company's profit before taxation amounted to EUR 125 million and after taxation to EUR 103 million. Net profit for the year is mostly the result of the sale of the accepting payment transaction business. i.e. part of the card acceptance business which was bought by Nexi Croatia d.o.o., the Company's new strategic partner.

Following above mentioned, total income of the Company for the year 2023 amounted to EUR 244 million, while total expenses amounted to EUR 118 million.

As of 31 December 2023 total assets amounted to EUR 450 million. Total equity of the Company amounted to EUR 209 million.

Neosjetljivo - Non-sensitive

Management Board report of the Status of the Group (continued)

Financial Highlights of the Group (continued)

Intesa Sanpaolo Bank d.d. Bosnia and Herzegovina

In 2023, Intesa Sanpaolo Banka d.d. BiH achieved the set goals defined by the plan and recorded a significant improvement in the main financial indicators on the market, which is characterized by a lag in the movement of macroeconomic indicators in relation to the markets of the region and the EU. This is especially visible in the movements of interest rates on loans and deposits, where the BiH banking sector recorded only a slight increase in 2023 compared to previous years.

The net profit of 2023 amounted to EUR 14 million and lower by EUR 1 million (-4.2%) compared to the previous year which was mainly driven by higher total Net provisions (higher provisions for risk and charges in 2023).

Net Interest Margin is higher by 14.8% compared to last year where significantly higher interest income (EUR 6 million) more than offset higher interest expenses (EUR 1 million). Interest income grew mainly due to higher interest income on due from banks by EUR 5 million (increased interest rate effect) and securities by EUR 1 million. This results also includes impact of increased interest rates from central bank on mandatory reserve and above mandatory reserve (EUR 2 million impact on net interest income). Higher interest expenses are result of higher interest expenses on term deposits (increased interest rate effect) and deposits from banks (significantly lower volumes but increased interest rates).

Net commission income increased by 2%, mainly as result of growth in card business (significant growth of number and volume of transactions) and business of selling insurance policies.

Total operating costs increased by 13.8% as a result of higher personal expenses (higher fixed costs) and general and administrative costs mainly driven by strong inflator pressure started in 2022 and continued in 2023 (inflation was +14% on country level in 2022 and above 6.5% in 2023).

Net impairment on loans in 2023 were recorded in amount of EUR 3 million which is lower by EUR 2 million in compared to previous year. The 2023 was marked by decrease of NPL loans (NPL ratio decreased by 6.7%) and improvement of cost of risk by 2.1% compared to previous year. Total Net provisions are higher than in 2022 by EUR 1 million primarily due to increase of Provisions for other assets (mainly risk and charges).

Total assets increased by 2.1% and amounted to EUR 1 billion, while net loans were in the amount of EUR 866 million (increased by EUR 53 million or 6.5%) and customer deposits in the amount of EUR 1 billion (increased by EUR 105 million or 11.3%). NPL ratio decreased compared to previous year by 6.7%, reaching a level of 3%, which is continuously lower than the banking sector average.

The Bank continuously enjoys comfortable liquidity position with available resources to sustain further expansion of credit portfolio.

The Bank’s capital adequacy ratio at 19.5% and well above prescribed level by the regulator, and the calculation doesn’t include net profit earned in 2023 in the amount of EUR 14 million. Total equity amounted to EUR 180 million at year end.

Strategic objectives of the Bank for 2024 are planned in coordination with Privredna banka Zagreb - progressing with multi-year plan of investments for the infrastructural and technological modernization of the Bank, organizational changes in terms of increase of the competitiveness of Bank’s commercial offers to clients, improving support in decision-taking for faster reaction to market changes, further improvement of existing and introduction of new ESG products and continuous assessment of risk profile of Bank’s assets.

Management Board report of the Status of the Group (continued)

Financial Highlights of the Group (continued)

Intesa Sanpaolo Bank d.d. Slovenia

Growth of net interest significantly marked the performance of Slovenian banking sector in 2023. With low net impairments and provisions, net profit of banks greatly exceeded the figure from 2022. With higher levels of interest rates, the volume of loans to the non-banking sector decreased with the largest year-on-year contraction in the last seven years. Loans to other financial institutions, to the state and foreigners decreased, while the volume of loans to households increased.

The deposits of the non-banking sector have remained stable source of funding for the banking system, despite smaller inflows in 2023. Their maturity structure is slowly changing in the direction of increasing fixed deposits. Most Slovenian banks slightly increased interest rates for term deposits, especially in the spring and summer months, which encouraged customers to increase longer period deposits. The quality of banks' loans portfolio has remained at the favourable levels. Shares of NPLs stayed at historically low levels, with performing loans reallocating from higher to lowest credit risk. The capital position of the Slovenian banking system remains solid as the result of lower risk-adjusted assets, higher regulatory capital due to retained earnings and reduction of losses from valuation of debt securities.

The banking system's liquidity position improved since the funds obtained through deposits and issued debt securities were not fully directed into lending and other investments but remained in accounts with the central bank.

In 2023, Intesa Sanpaolo Bank's d.d. Slovenia net profit reached EUR 72 million, an increase of 337.1% compared to previous year, mostly due higher net interest income. It reflects a moderate strengthening of economic activity and a higher level of interest rates, driven by ECB's higher key interest rates. In terms of operating margin, the Bank overperformed by substantial 175.6% YoY, confirming the Bank's ability to effectively face the challenging environment represented by uncertainty in the international environment, energy market conditions and prolonged high inflation. Effective HR management, combining remote and office work, further upgrading of digital banking solutions, were all building blocks for record financial results.

The growth of volumes of loans in almost all commercial segments and maintaining of Bank's market share in both individuals and legal entities segment at a high level continued in 2023. Net interest income totalled EUR 124 million, 154.6% increase on yearly level. Besides higher net interest income, the Bank additionally improved operating results with higher profit from trading activities.

Total operating costs recorded a yearly increase of 14.6%, mainly following the increase in personnel expenses (higher average number of employees, higher incentive system provisions and higher allowances defined by the law) and other administrative expenses across several categories driven by inflationary pressures. Net impairment costs on loans portfolio amounted to EUR 7 million. The non-performing to total loans ratio slightly increased from 1.1% in 2022 to 1.2% in 2023.

Total net assets increased by 8.1% to EUR 3,991 million with net customer loans in the amount of EUR 2,415 million (1% growth YoY) and customer deposits in the amount of EUR 3,421 million (6.7% growth YoY). Equity amounted to EUR 396 million. The Bank's position in terms of available liquidity remains safe and ready to sustain planned further expansion of lending activity.

Intesa Sanpaolo Bank d.d. in Slovenia, a member of the international banking group Intesa Sanpaolo, is performing a re-launching initiative and business expansion, which stem from the positive performance and achievements attained by the Bank in Slovenia over the last 18 years, since the Bank became part of the Intesa Sanpaolo Group. Another important impulse to Bank's growth-propelling initiative has been achieved in 2017 with the transfer of 51% of the Bank's shares from Intesa Sanpaolo to Privredna banka Zagreb, a subsidiary bank of the ISP Group in Croatia. The new ownership structure is part of the Group's regional strategy aiming to increase synergies between its subsidiaries in revamping of its operations in Slovenia.

Management Board report of the Status of the Group (continued)

Financial Highlights of the Group (continued)

PBZ Leasing d.o.o.

The company achieved a net profit in the amount of nearly EUR 2 million for the year 2023. In 2023, the company achieved EUR 106 million in new financial and operating lease contracts (2022: EUR 65 million).

The company's total portfolio at the end of 2023 consists of net fixed assets in operating lease in the amount of EUR 41 million (2022: EUR 34 million) and net finance lease receivables in the amount of EUR 132 million (2022: EUR 98 million). Capital and reserves at the end of the year amount to EUR 21 million.

In 2024, the business activities of PBZ Leasing d.o.o. will be focused to financing legal entities both through its own channels and through Bank channels.

PBZ Croatia Osiguranje d.d.

PBZ Croatia Osiguranje d.d. continues to achieve positive financial results. In 2023 the Company reached net profit of EUR 3 million. At the same time, the cost income ratio stands at 65%. Total assets as of 31 December 2023 were EUR 20 million and equity EUR 18 million. PBZ Croatia Osiguranje d.d. is a well-recognised and highly respectable pension fund management company in Croatia.

Development strategy for 2024 will be oriented at maintaining its status within the general public in the country as well as successfully managing the funds' assets.

Risks to which the credit institution is or might be exposed

Bank directs particular attention to identification of risks to which is or might be exposed to. Identification is conducted through risk mapping – technique that is used to determine the existence of risks and assess risk significance for each of the defined units of observation. Units of observation can be:

- in a comprehensive risk identification: all legal entities in the PBZ Group, meaning that the existence and significance of all types of risks is determined for each member of the PBZ Group, or
- in a partial risk identification: individual members of the PBZ Group, introduction of new products, outsourced activities, and the like.

Identification is comprehensively conducted in cooperation with senior management of the PBZ Group and relevant control functions as one of the key phases of ICAAP process. The comprehensive risk identification and mapping is performed on annual basis, the procedure is also used partially in case of outsourcing, introduction of new products or implementation of significant business changes.

The risk mapping is based also on Risk catalogue containing risk definition used by the PBZ Group, which are aligned to risk definitions defined within CNB Decision on risk management and mapped to corresponding ISP risk.

Risk map of PBZ Group and their significance determined for 2023:

High significance	**Medium significance**	**Low significance**
Credit risk Liquidity risk Operational risk Interest rate risk	Strategic risk Reputational risk Outsourcing risk	Market risk Equity risk in banking book Real estate risk Risk of excessive financial leverage

Management Board report of the Status of the Group (continued)

Risks to which the credit institution is or might be exposed (continued)

Credit risk - The PBZ Group as a group of credit institutions is primarily oriented to providing traditional banking services (loans, deposits) which account for a major part of the total assets of the Bank and the PBZ Group, and therefore credit risk represents the most significant risk. Capital requirement for credit risk represents a major part of total regulatory capital requirement. The Bank continuously places emphasis on credit risk management and focuses special attention on maintaining an adequate credit portfolio and appropriate measurement and monitoring of credit risk. During 2023 Bank regularly monitored and analyzed the dynamics of the quality and development of the credit portfolio in relation to all further developments in geo-political risks, but it also focused on emerging challenges and potential threats that were mainly identified through inflationary pressures and a potential increase in the risk caused by interest rates (due to the rising trend of interest rates). Therefore, credit risk, as the key and most significant risk in the Bank's portfolio, is designated as a risk of high significance.

Dilution risk, sovereign risk, residual risk, migration risk and counterparty risk have well-defined guidelines and internal acts aimed at establishing processes and resources used in the risk management process. Due to the fact that these risks are not materially significant, they are considered to have low significance.

Concentration risk is very sensitive in terms of potential significant portfolio deterioration in case of defaulted events of clients with high exposure. Therefore, concentration risk significance was identified as medium. However, PBZ has well defined guidelines and internal regulations aiming at establishment of processes and resources used in risk management process, as well as properly defined underwriting limits and delegation rules for managing concentration issues. Moreover, in line with ISP Risk Appetite framework PBZ has established several concentration related limits that are to be monitored on a continuous basis.

Currency-induced credit risk was in previous period important due to relatively high share of FX denominated credit portfolio. However, taken into consideration inclusion of the Republic of Croatia in the Exchange Rate Mechanism (ERM II), by which Croatia took responsibility to maintain the stable exchange rate until the formal accession to the Economic and Monetary Union (EMU), we considered the CICR component relating to EUR denominated exposures was substantially negligible. Therefore, as a result of the changes that have occurred, Bank decreased the significance of this risk and identified currency risk significance as of low significance.

Interest-induced risk is risk category introduced during 2018. Although Bank records increase of loans with fixed interest rates; the exposures with variable interest rate represent significant part of Bank's assets. In line with introduction of new risk category, Bank timely adjusted internal framework and risk management processes, properly reflecting new identified risk. Nevertheless, due to significant part of portfolio which is subject to exposure to interest rate induced risk and focusing also on newly emerging challenges and potential threats which are mostly identified through inflationary pressures and potential increase of interest rate induced risk (due to growing interest rates trend), Bank addressed particular focus toward monitoring of risk evolution and potential impact on portfolio quality. Significance of this risk was deemed as medium.

Liquidity risk - During 2023 the Bank continued period of high liquidity and ensured alignment to all internal and external requirements. Nevertheless, liquidity risk continued to be treated as highly important, with ongoing focus on ensuring continuously sufficient level of liquidity and constant alignment with regulatory requirements and other valid regulations. Moreover, adequate focus was also directed to structural liquidity, ensuring sufficient equilibrium between long term assets and related required available sources of funding. Taking in consideration all above mentioned, liquidity risk was deemed as highly significant.

Neosjetljivo - Non-sensitive

Management Board report of the Status of the Group (continued)

Risks to which the credit institution is or might be exposed (continued)

Operational risk - the Bank is continuously exposed to operational risk and continuously strengthens the established framework for operational risk management in accordance with changes in the business environment. Recognizing the importance of operational risk management, the Bank established a comprehensive and sophisticated operational risk management system with clearly defined activities and responsibilities. Even though the comprehensive and rigorous operational risk management system is in place, due to its nature this risk is considered as highly significant. Therefore, additional efforts were directed towards defining mitigation activities focused on risk reduction and risk control as defined by internal regulations. Internal regulations related to operational risk were transparently communicated to all employees of the Bank.

Interest rate risk – Being fully aware of changes in the market, the Bank has timely reacted particularly adding attention to risk management and monitoring activities and decision-making process. Year 2023 was marked with continuous increases in interest rates and the Bank adapted to those changes offering both floating and fixed rate loans to customers SME and Corporate segments where credit worthiness is always assessed assuming capability to regularly service debts in case of further increase of interest rates. Due to the alignment with EU law, new production of retail loans with variable interest rate was linked to Euribor (instead of previously applied more stable NRS index), however the Bank adjusted its interest rate policy to retail clients offering only fixed rate loans in order to protect the clients from increasing interest rates reducing interest rate induced credit risk, while at the same time mitigating interest rate risk in the banking book through macro hedge interest rate swaps. Interest rate on sight and term deposits followed the increasing trend of the interest rates, but with more careful approach. Risk significance was deemed as high.

Strategic risk – Considering a broader perspective of the effects of strategic risk on the achievement of strategic goals, the Bank foresaw the need to establish a framework for managing and monitoring strategic risk. Strategic risk management included both internal and external forces that can affect the achievement of the Bank's strategic goals. Likewise, the Bank continuously improves strategic risk management and the process of strategic planning. Furthermore, strategic planning and key related activities were carried out in close cooperation and under the leadership of the parent company ISP, which ensured the alignment of the Group's strategic principles within the entire ISP Group. Strategic risk analysis was an integral part of the process of defining the Bank's risk management strategy and the general framework for risk management. Therefore, strategic risk significance was deemed as medium.

Reputational risk – Adequate management of reputational risk represents a significant part of the general framework for risk management. Recognizing the importance of reputational risk management, the Bank established a reputational risk management system with clearly defined activities and responsibilities. In addition to defining the key functions of reputational risk management, additional efforts were directed towards defining preventive activities to control reputational risk as defined by internal regulations:

- Confidentiality of information (banking secret, business secret, classification of confidential data etc);
- Clear lines of public communication;
- Codes regarding ethical behavior of its employees;
- Anti-money laundering and prevention of terrorist financing;
- Exclusion of some activities from financing by the PBZ Group;
- Special scrutiny for financing political parties and politically exposed persons;
- Assessment of reputational risk for clients subject to ESG clearing.

Neosjetljivo - Non-sensitive

Management Board report of the Status of the Group (continued)

Risks to which the credit institution is or might be exposed (continued)

All internal regulations related to reputational risk are clearly communicated and distributed to all employees of the Bank. By applying the principles of reputational risk management explained here, special efforts are made to integrate reputational risk prevention activities into core functions at all hierarchical levels. Therefore, the reputational risk is considered to have a medium significance.

Outsourcing risk – The bank has implemented clear and detailed documented rules and procedures for the initiation of the outsourcing procedure of a certain activity, which include comprehensive identification and risk analysis, determination of the significance of the outsourced activity and regular control and monitoring of the quality of the outsourced service. The bank carefully monitors all regulatory news and requirements and adjusts its rules on outsourcing in accordance with the current regulatory framework. Due to the existence of materially significant externalized activities at the level of PBZ Group, this risk is considered medium.

Market risk - The trading portfolio (trading book) is relatively insignificant. The most significant exposures to market risk are risks arising from trading positions in debt securities and currency risks arising from the management of the Bank's open position. Despite this, the Bank has a well-defined framework for managing market risks, which includes defining roles, responsibilities, measurement methodologies, principles of monitoring and reporting, and a structure of market risk exposure limits. Therefore, market risk was considered to have low significance.

Equity risk in Banking Book - The Bank has an insignificant amount of ownership shares, so the significance of the risk of ownership shares in the bank's book is low.

Real Estate risk - The Bank does not hold real estate for speculative purposes and the majority of all assets owned by the Bank are used long-term as business premises (most of the book value of real estate refers to real estate used as business premises, while the remaining part refers to property acquired in the process of forced collection). For this reason, the significance of real estate risk was considered low).

Risk of excessive financial leverage – The financial leverage ratio is defined as one of the Bank's strategic limits that must be maintained above the prescribed minimum, and compliance with the limit is monitored on a quarterly basis. Considering that the Bank is well capitalized and that maintaining an adequate ratio of capital to total assets is of strategic importance for the Bank, this risk was considered to have low significance.

Recognizing the overall increasing importance of environmental, social and governance risks (ESG) as one of the key topics from several perspectives (regulatory, political, etc.), the Bank recognized the need to direct additional and special attention to improving the inclusion of environmental, social and governance risk management in regular operations/mode of operation, both in the process of strategic management and the appropriate transition expected in the medium/long-term time period, as well as in more operational activities of ESG risk integration into management systems. Therefore, ESG risks are already integrated into the catalog of risks, where it is defined that credit, reputational, market, liquidity and operational risks can arise from factors related to environmental, social and management risks (so-called ESG risks), i.e. risks arising from potential negative impact, directly or indirectly, on the environment, on people and communities and generally on all stakeholders, or arising from the management of the company. Accordingly, during 2023, the Bank made significant improvements in the integration of ESG risks into the management system and the management of key related risks.

Neosjetljivo - Non-sensitive

Management Board report of the Status of the Group (continued)

Corporate governance structure

In accordance with the Companies Act, the Credit Institutions Act, and the Bank's Articles of Association, the bodies of the Bank are the General Meeting, the Supervisory Board, and the Management Board. The mentioned acts also regulate their duties and responsibilities.

Supervisory Board

The Supervisory Board of the Bank supervises the conduct of business affairs in the Bank. With this end in view, it goes through and examines the Bank's business books and documentation. The Supervisory Board submits to the General Meeting of the Bank a written report on the supervision exercised with respect to the conduct of business affairs in the Bank. The Supervisory Board consists of seven members. As a rule, regular Supervisory Board meetings are called quarterly. The Supervisory Board may decide on important and urgent matters in meetings held by letter. Fourteen Supervisory Board meetings were held in 2023 with the regular attendance of members. The members of the Supervisory Board of the Bank are elected for a three-year term of office.

Members of the Supervisory Board as of 31 December 2023 are the following:

Ignacio Jaquotot, President of the Supervisory Board – term of office from 13 May 2022

Draginja Đurić, Deputy President of the Supervisory Board – term of office from 3 April 2023

Beata Kissné Földi, Member of the Supervisory Board – term of office from 24 February 2023

Maja Martinović, Member of the Supervisory Board – term of office from 13 May 2022

Luca Leoncini Bartoli, Member of the Supervisory Board – term of office from 27 August 2023

Giulio Moreno, Member of the Supervisory Board – term of office from 1 December 2023

Christophe Velle, Member of the Supervisory Board – term of office from 19 October 2022

Audit Committee

Pursuant to the Articles of Association of Privredna banka Zagreb, the Supervisory Board established the Audit Committee at its 15th meeting held at 10 December 2002. The work of the Audit Committee is regulated by the Rules of Procedure of the Audit Committee Charter and the corresponding Operational Rules.

The Audit Committee has been appointed in accordance with the law and the parent bank's rules. In 2019 until 31 October, it worked as a body composed of five members. Namely, the composition of the Audit Committee was aligned in June 2018 with the provisions of the new Audit Act so that the Committee was composed of three independent members of the Supervisory Board of the Bank, appointed by the Supervisory Board, and two members appointed by the General Meeting of the Bank. As of 31 November 2019, Audit Committee is composed of three members of the Bank`s Supervisory Board appointed by the Supervisory Board who serve a three-year term of office. As of 31 December 2023, all of the members of the Audit Committee are independent from the Bank. In 2023 six meetings of the Audit Committee were held with regular attendance of members. The Audit Committee discussed at its meetings the issues within the competence of the Supervisory Board. The Audit Committee helped the Supervisory Board in carrying out its duties related to the supervision of the administrative and financial governance process, the audit process (including the recommendation of the General Meeting for the election of the external auditor), as well as compliance with laws, regulations, rules and the code of ethics. The Supervisory Board, with the help of the Audit Committee, monitored the adequacy of the internal control system, which is achieved through independent control functions (internal audit, risk control, compliance, anti-money laundering), in order to establish such a system of internal controls that will enable early detection and monitoring of all risks to which the Bank is exposed in its operations.

Neosjetljivo - Non-sensitive

Management Board report of the Status of the Group (continued)

Corporate governance structure (continued)

Audit Committee (continued)

Composition of the Audit Committee as of 31 December 2023:

Beata Kissné Földi, President from 24 February 2023 (new term of office)

Giulio Moreno, Member from 1 December 2023 (new term of office)

Maja Martinović, Member from 17 May 2022

Permanent invitees attending Audit Committee meetings as of 31 December 2023:

Carlo Grazio from 26 May 2021

Andrea Nani from 30 April 2020

James Vason from 26 May 2021

Management Board of the Bank

The Management Board conducts business operations of the Bank. Members of the Management Board are appointed for a term of three years, during which they are in charge of certain areas of business. In 2023, the Management Board of the Bank consisted of a total of seven (7) members.

The Management Board regularly meets every two weeks, if necessary, more frequently, to reach management decisions.

Enlarged meetings of the Management Board of the Bank are held monthly and they include the participation of heads of subsidiaries in the Republic of Croatia (PBZ Card d.o.o., PBZ Leasing d.o.o.) and subsidiary banks (Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina, Intesa Sanpaolo Bank d.d. Slovenia). Representatives of the competent organizational units of the parent bank's ISBD are regularly invited to these sessions. These meetings consider financial reports and important issues concerning business operations of the mentioned subsidiaries.

Members of the Management Board of the Bank as of 31 December 2023:

Dinko Lucić, President of the Management Board, manages the activities of the Management Board, coordinates all business functions within the Bank and the PBZ Group, and he is also responsible for Control and Staff functions: Internal Audit, Compliance, Cybersecurity and BCM, HR and Organization, Legal Affairs, PR and Marketing Communication, General Secretariat and Customer Satisfaction and Complaints - term of office from 12 February 2021.

Dario Massimo Grassani, Deputy President of the Management Board of the Bank, responsible for: *(i)* Control and Staff functions: Anti-Money Laundering and Project Management in terms of strategic projects; *(ii)* coordination of the Chief Financial Officer (CFO) area, the Chief Operating Officer (COO) area, and the Chief Risk Officer (CRO) area *except* the Risk Management Department and the Internal Validation Office; *(iii)* coordination of subsidiary banks in alignment with the Banking Subsidiaries Coordination Committee and of PBZ Group companies in terms of the ESG governance framework - term of office from 24 November 2022.

Andrea Pavlović, Member of the Management Board responsible for: (a) Chief Risk Officer (CRO) area; (b) coordination of PBZ Group companies in the segment of risk management and control - term of office from 16 May 2022.

Neosjetljivo - Non-sensitive

Management Board report of the Status of the Group (continued)

Corporate governance structure (continued)

***Management Board of the Bank* (continued)**

Antonio Bergalio, Member of the Management Board responsible for: (a) the CFO area; (b) coordination of PBZ Group companies in the segment of finance (CFO area) - term of office from 8 September 2023.

Draženko Kopljar, Member of the Management Board responsible for: (a) Chief Operating Officer area (COO); (b) coordination of PBZ Group companies in the segment of information technology and operations - term of office from 12 February 2021.

Hrvoje Dajak, Member of the Management Board, responsible for: *(i)* Retail Division; *(ii)* coordination of PBZ Group companies in the segment of retail banking and card business - term of office from 14 July 2022.

Vedrana Jelušić Kašić, Member of the Management Board responsible for: (a) Corporate Medium and Large Business and Investment Banking; (b) coordination of subsidiary PBZ Croatia Osiguranje d.d. for the management of mandatory pension funds and PBZ Leasing d.o.o. – term of office from 16 September 2021.

Dinko Lucić

President of the Management Board

13 February 2024

Macroeconomic developments in Croatia in 2023

External environment

Around the world, 2023 will be remembered as a year in which brutal and exhausting war in Ukraine marched on, with a continued highly uncertain outcome at the moment of drafting this text at the beginning of 2024; by an outbreak of a high intensity conflict in Israel in October with also extremely unclear options for outcome and subsequent escalation of relations in the Middle East region. The latter creates new pressures on energy and goods' prices, threatening with holdups and suspension of maritime transport, thus calling into question the projections of a sharp drop in inflation in this year and expected loosening of central banks' monetary policies. Described events are taking place in conditions of a heightened global fragmentation, geopolitical reshuffling, and polarisation of countries according to the degree of economic and political ties with the U.S., i.e., China, that could have an adverse effect on trade in the longer run by creating an environment of permanently amplified inflationary pressures and heightened tensions. Such environment will intensify climate change which brings high uncertainties, heightened risks for the economy and human lives, potential food and water shortages and new conflict hotspots. Per data of the World Meteorological Organization, 2023 was the hottest year compared to the pre-industrial period 1850-1900, year of record sea surface temperatures and sea level rise.

The strongest effect on inflation de-escalation in 2023 came from the decline in energy prices that wasn’t halted even by an outbreak of conflict in the Middle East. Since September, price of oil has been in constant mild decline, ending the year at 77 USD/barrel (at the end of 2022 it was 86 USD/barrel). Price of natural gas at TTF was a low 30 EUR/MWh at the end of 2023 (70 EUR/MWh at the end of 2022), which was also contributed by timely filling of underground storage facilities in the EU for which the EC in 2023 set up a higher target filling level of 90% by 1 November (level was already reached in August), as well as again favourable weather conditions in the final months of the year. Just like food prices soared the year before due to energy price increase, so in 2023 relieving pressures and decline of the latter also resulted in a downward trend of global food prices; World Bank food price index thus shows a systematic year-on-year decline from February that amounted to 6.1% year-on-year in November 2023.

The European Central Bank, after a 2.5 p.p. increase in 2022, continued its decisive fight with inflation in 2023 by raising key interest rates by 2.0 p.p. With that, the deposit facility rate, that is currently the banks’ most important one due to abundant liquidity, reached 4.00%. Key interest rates were raised six times during the year, and the final increase in September marked the end of monetary policy normalisation cycle. At the following meetings, the Governing Council repeated on several occasions that key interest rates are on levels that, if they are maintained long enough, will contribute significantly to returning inflation towards mid-term goal of 2% and that in future decisions the levels of key interest rates that will be restrictive enough will be determined as long as it is necessary. Emphasizing that the rates will be maintained at current levels as long as it is needed, the ECB tried to avert potentially premature market expectations that it could decide on its first interest rate reduction already in the spring. However, data on inflation that was below 3% year-on-year in late 2023 so far support such standpoints.

After a sharp increase of cumulative 4 p.p. the year before, in 2023 Fed steadied the pace of raising the target range of the federal funds rate that was additionally increased, on four occasions, by a total of 1.0 p.p. and reached 5.50%. A more moderate escalation than in the eurozone can be contributed to a lower inflation level and its faster tumble.

According to estimates, global GDP growth deaccelerated slightly in 2023 to 3.1% from 3.3% in 2022, with a notable weakening recorded in the eurozone, so it is expected that growth will amount only to 0.4% while, conversely, the U.S. economic activity growth improved to 2.5%. Lean growth in the eurozone was mostly the result of adverse developments in Germany for which it is estimated it recorded GDP decline of -0.2% year-on-year (Intesa Sanpaolo, Macroeconomic Outlook, December 2023).

Neosjetljivo - Non-sensitive

Macroeconomic developments in Croatia in 2023 (continued)

External environment (continued)

2023 – first year of the euro in Croatia

The eventful 2023 in Croatia will remain recorded primarily as the year of farewell to the Croatian kuna, i.e. as the first year of use of the new currency – the euro, and the year of accession to the Schengen area. But the past year will also remain marked in domestic memory by still high inflation, but also by solid economic growth – faster than the EU average. The turbulent geopolitical environment that culminated in conflict in the Middle East at the end of the year, climate change and natural disasters, artificial intelligence, uncertain and exhausting war in Ukraine, slowdown in China – are just some of the hallmarks of the year behind us. From an economic point of view, this is a year in which, despite the unprecedentedly strong and rapid tightening of monetary policies on both sides of the Atlantic, we neither faced a recession in the USA, nor ultimately a "real" recession in the euro area, regardless of the pronounced walk on the edge, especially in the second half of the year.

Since the beginning of 2023, real economic activity in the euro area has largely stagnated. Thus, after modest achievements in the first part of the year, during the summer months there was a slight contraction of economic activity, and most of the current projections for the last quarter of this year indicate a continuation of similar developments. The weak developments in the euro area economy are mainly due to deteriorating developments in industry and construction sector. But this has not yet had a noticeable impact on the labour market, which remains very strong with widespread labour shortages and pronounced growth in nominal wages. At the same time, consumer price inflation in the euro area slowed from a peak of 10.5% recorded in October 2022 to 2.9% in December, supported by falling energy prices.

In the strongest cycle of monetary policy tightening in the euro area since the introduction of the euro, the Governing Council of the European Central Bank (ECB) raised key interest rates by an additional 200 basis points in 2023, thus the overnight deposit interest rate reached 4.0% in September, which, as there were no new increases during October and December, concluded a cycle of interest rates hikes. In addition to standard measures, the ECB further tightened monetary policy also by gradually reducing the Eurosystem's balance sheet.

Despite the challenging environment, the Croatian economy in the first three quarters of 2023 continued to record more than solid year-to-year growth rates of gross domestic product, thus accelerating convergence towards the EU average.

2023 in review: slowdown in foreign demand, domestic recovery

The hallmark of the past year in the domestic economy continued to be the high inflation rate, which dropped from an average of 10.8% recorded in 2022 to an average of 8% during 2023, with a noticeable disinflation trend recorded during the second half of the year. During 2023, the monthly inflation rate averaged 0.4% compared to 1.2% recorded in 2022, with a noticeable deceleration of monthly dynamics of price growth in the most significant categories in terms of share, such as food and energy, which was somewhat less pronounced in (tourist) services. The year ended with a monthly price decline of -0.5%, i.e. an annual inflation rate of 4.5%. It is important to note that the Government of the Republic of Croatia, after three packages of measures to protect households and the economy from price growth adopted during 2022, adopted two additional packages of measures in the spring and autumn of 2023, by which the supports to mitigate price growth were maintained until the end of March 2024.

A tense labour market characterised by labour shortages and historically low unemployment prompted acceleration in wage growth and net wages rose by 12.8% year-on-year on average in the first ten months (compared to 7.2% in the same period of 2022), which combined with a slower inflation rate resulted in average real wage growth of 3.8% (compared to -2.8% in the same period of 2022). The return of real growth in the average net wage was also reflected in the recovery of retail trade turnover, i.e., on the strengthening of household consumption, especially in the second part of the year. Accordingly, household consumption increased by 3.0% year-on-year in the third quarter, i.e., during the first three quarters by 2.3%.

Macroeconomic developments in Croatia in 2023 (continued)

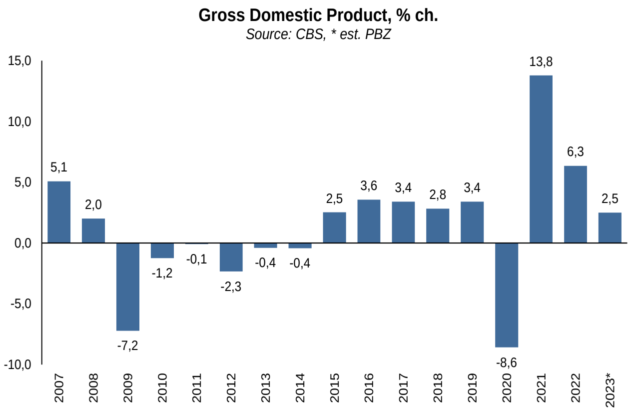
2023 in review: slowdown in foreign demand, domestic recovery (continued)

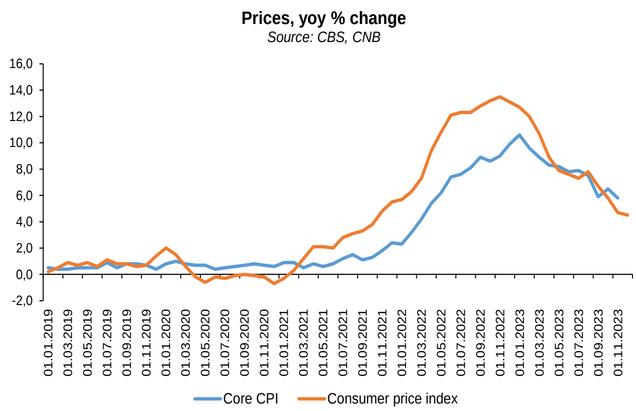
The weakening of foreign demand became particularly pronounced during the third quarter of 2023, when exports of goods recorded a real contraction of as much as -20.4% year-on-year, and a slight decrease of -0.5% was also recorded in the export of services. At the level of the first three quarters, exports of goods recorded a real decline of 9.9%, while exports of services (tourism) due to an excellent pre-season recorded an increase of 4.6%. At the same time, total imports posted a contraction of -4.7%.

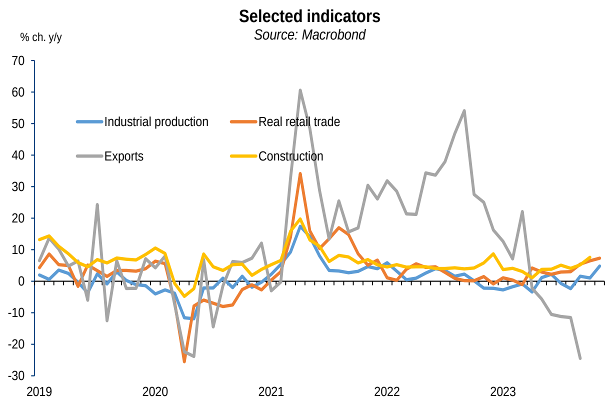
During the first three quarters of 2023, a recovery in investment activity was also recorded, namely after stagnation in the first, the second quarter brings growth of 4.2%, and the third quarter of 6.1% year-on-year. The continued growth of investment activity seems to remain mainly influenced by the high level of public investments supported by EU funds, while the decline in imports of capital goods suggests that private investments remain subdued under the influence of a gradual deterioration in financing conditions.

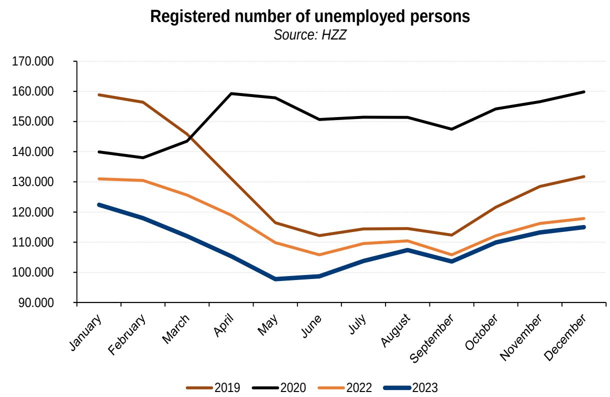
While, after an annual growth of 1.6%, or 2.6% in the first and second quarter, the third quarter brought an acceleration of economic growth to 2.8%, quarterly growth slowed to only 0.3%, but available monthly data suggest a strengthening of economic growth in the last quarter of 2023. Namely, the annual growth rate of real turnover in retail trade accelerated in October and November to 6.5% and 7.3%, respectively, while at the same time industrial production recorded growth of 1.0% and 4.8%, respectively. At the same time, proportionally positive developments were also recorded by survey confidence indicators, including industry confidence and consumer confidence, which in November reached its highest level in the last two years.

In line with stable and positive developments in the economy, the projections of the Ministry of Finance indicate only a slight deterioration of the fiscal position in 2023. Namely, after a balanced general government budget in 2022, the Ministry of Finance expects that in 2023 a deficit of only -0.3% of GDP will be realized, while at the same time the share of public debt in gross domestic product should drop to 60.7% (from 68.2% at the end of 2022).



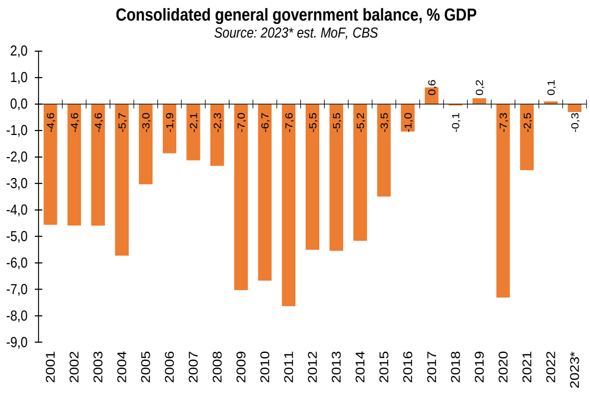


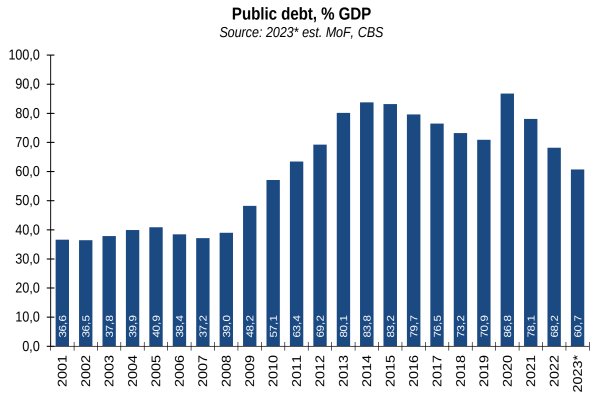




Macroeconomic developments in Croatia in 2023 (continued)

2023 in review: slowdown in foreign demand, domestic recovery (continued)



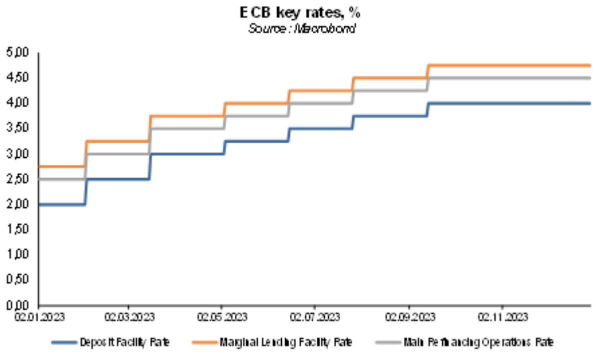


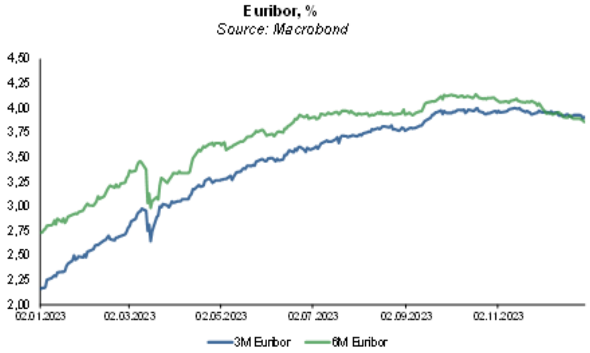
Interest rates in the money market noticeably higher

In 2023, the ECB continues to normalise the monetary policy, due to which interest rates in the money market maintain an upward trend. The average 3M Euribor thus stood at 3.4% in 2023 and 6M at 3.7%, representing an increase of about 3.0 p.p. compared to a year earlier. However, since November, there has been a slight downward trend amid market expectations that the ECB will start a cycle of lowering interest rates as early as spring 2024. Hence, 3M and 6M Euribor ended the year at the level of 3.9%.

The spread between domestic and German ten-year government bonds in 2023 significantly narrowed owing to Croatia's entry into the eurozone and accession to the Schengen area, improved rating outlook and solid GDP growth. The average spread reached 140 basis points (-50 basis points year-on-year) with an average yield of 3.8% (+0.7 p.p.). The MF in March issued a €1.85 billion bond on the domestic market, maturing in 2025, at an interest rate of 3.65%, which was also offered to natural persons for the first time in addition to institutional investors. Another bond issue of €1.25 billion, maturing in 2033, at an interest rate of 3.75% was realised on the domestic capital market in November, and a €1.5 billion issue, maturing in 2035, at an interest rate of 4.00% was realised on the international capital market in June. In 2023, Treasury bills were also offered for the first time to retail investors at an auction in November, where out of a total issue of €1.13 billion, citizens subscribed €1 billion at an interest rate of 3.75% (institutional investors at an interest rate of 3.65%).

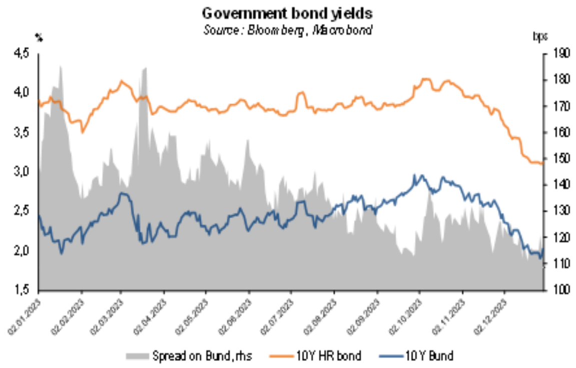
In 2023, the euro appreciated against the dollar due to a stronger tightening of the monetary policy of the ECB than the Fed. The average exchange rate reached $1.08 per euro, up by 2.7% year-on-year.

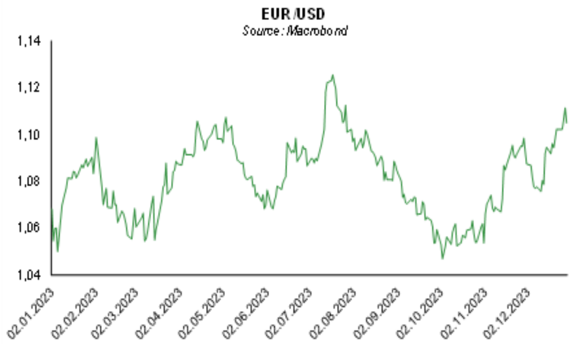




Macroeconomic developments in Croatia in 2023 (continued)

Interest rates in the money market noticeably higher (continued)





Loan and deposit growth rates mitigated

The growth of credit institutions' assets in 2023 notably slowed down, following the curbing of loan and deposit growth rates, coming in at 3.4% year-on-year in November. Credit activity is losing its momentum on account of weaker demand from the corporate sector due to reduction of inflationary pressures followed by an increase of financing costs. Simultaneously, lending to households is strengthening due to the last subsidies' cycle for purchasing real estate and especially due to increased demand for cash loans in high inflation conditions, and in an environment of a moderate interest rate increase for loans to citizens. Total loans at the end of November 2023 up by 6.7% year-on-year, with loans to the central government increasing by 2.0%, while loans to the private sector recorded growth of 7.8% (households 8.9%, non-financial corporations 6.3%). Deposit growth slowed down in 2023 due to high base, i.e., cash inflow ahead of entering the euro zone at the end of 2022, weakening of crediting dynamic, and still high inflation which has eroded real income and outflow of household deposits due to investments in government securities. In November, total deposits recorded an increase of 3.8% year-on-year, where the private sector had an increase of 4.4% (households 2.8%, non-financial corporations 8.5%). Raising interest rates for term deposits reversed long-time trends so total overnight deposits in November were down by 2.9% year-on-year, while deposits with agreed maturity increased by 28.9%.

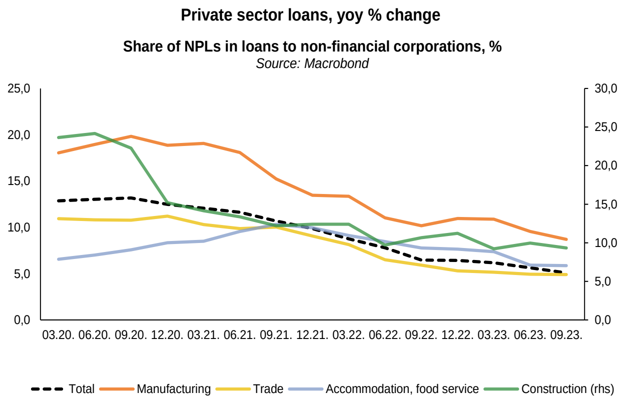
Banks' interest rates on loans increased due to growth of reference and interest rates on deposits but owing to strong liquidity of the domestic banking system and high deposit base, transfer was milder than in other euro area countries. Compared to the average for 2022 (euro and currency clause for the euro in 2022), average interest rate for private sector loans in the first eleven months of 2023 was raised by 2.1 p.p. to an average 4.6%. Interest rate for household loans was increased, on average, up to 1 p.p. (to 3.2% for housing and 5.7% for other loans), while the interest rate on loans to non-financial corporations increased by 2-3 p. p. on average (to 4.3% for loans up to 1 million €, i.e., to 4.8% for loans larger than 1 million €). Interest rates for overnight deposits remained low, while those for deposits with agreed maturity surged due to growth of reference interest rates as well as competition of attractive rates which accompanied the placement of government securities. Thus, average interest rate on corporate term deposits in the first eleven months of 2023 was up by 2.3, and for households 1.2 p. p. compared to the average for 2022 (euro and currency clause for the euro in 2022) reaching 2.5, i.e., 1.3%.

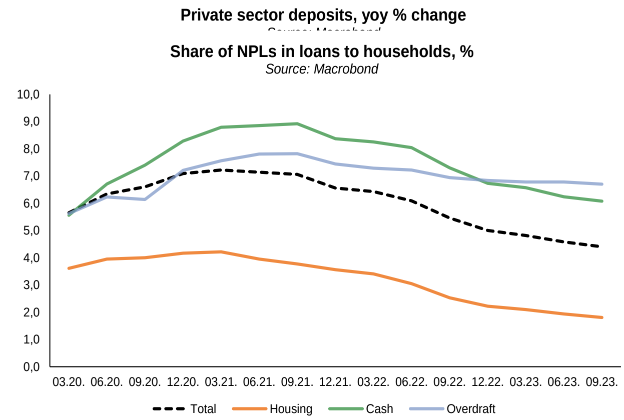
Macroeconomic developments in Croatia in 2023 (continued)

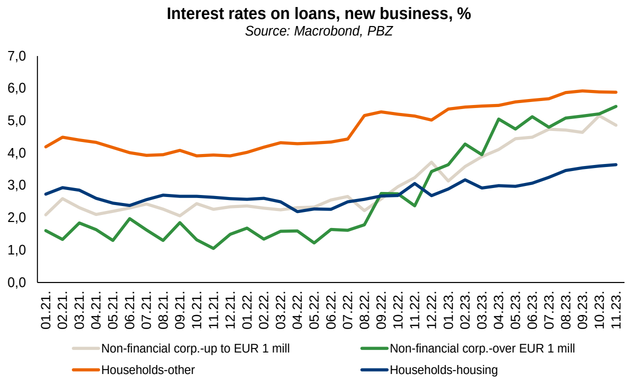
Loan and deposit growth rates mitigated (continued)

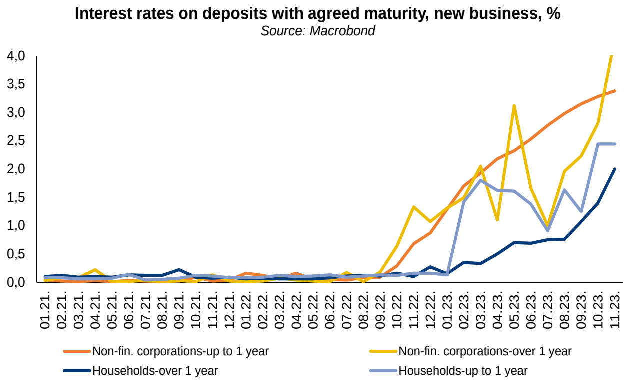
Solid economic growth and increase of new placements bring a continuation of a favourable trend of asset quality in 2023, thus enhancing system stability. Share of non-performing loans (NPL) was 2.7% in late September, down by 0.4 p. p. than in late 2022. Ratio was pulled downwards by a strong decline of shares in loans to non-financial corporations from 1.3 p. p. to 5.1%, a result of noticeably lower share in Transport and storage (-5.6 p. p. to 4.8%) and Manufacturing (-2.3 p. p. to 8.7%). Trade, Construction and Accommodation and food service activities recorded a simultaneous decrease up to 2 p. p. (to 4.9%, 9.3% and 5.9%). Loans to households recorded a decrease of a more moderate 0.6 p. p. (to 4.4%), headed by cash loans (-0.7 p. p. to 6.1%) owing to robust strengthening of lending, while housing loans decreased by 0.4 p. p. to 1.8%.

Interest income jump due to an increase of ECB deposit facility rate and economic growth which supported the continuity of lending activity and a decline of non-performing loans resulted in an improvement of credit institutions' profitability. Return on assets and equity thus reached 1.9, i.e.,16.9%, in the first nine months of 2023, up by 0.6, i.e., 6.7 p. p. year-on-year. The total capital ratio of credit institutions was a high 23.3% in late September, and capitalisation was supported by a rate increase for countercyclical capital buffer to 0.5% from 31 March 2023 (from 31 December 2023 the rate has been raised to 1.0%, and from 30 June 2024 it will be raised to 1.5%).









Business description of the Bank

Privredna banka Zagreb was founded in 1966 and has consistently been a leading financial institution in the Croatian market, with an established business base and a highly recognized national brand name. During all periods of its history, PBZ supported the largest investment programs in tourism, agriculture, industrialisation, shipbuilding, electrification and road construction. PBZ has become a synonym for economic vitality, continuity and the Croatian identity.

Privredna banka Zagreb today is a modern and dynamic financial institution, which has actively sought and won the role of market leader on the financial markets in Croatia. It is a fully licensed bank with nationwide branch network. With its nationwide network of branches and outlets, as well as a broad group of banking and non-banking subsidiaries, PBZ is one of the universal banks that cover the whole territory of Croatia.

Organisational Structure and Business Activities

PBZ is the second bank in terms of total assets in Croatia and the fifth bank in terms of subscribed share capital. PBZ is also one of the largest Fixed Income and Foreign Exchange dealers in Croatia as well as a leading player on the domestic syndicated loan market. With an outstanding reputation for innovative financial solutions, the Bank has been consistently recognised as the leading Arranger of equity, debt and commercial papers issues in the Republic of Croatia. The Bank is strongly focused on customer satisfaction and a high-quality customer experience. Aware of its role and influence on society, PBZ's corporate values integrated in daily operations include not only business success, but also care for people, the sustainable development of its business and the overall improvement of quality of life in the community where it operates. It has consistently been a leading financial institution on the Croatian market with an established business base and recognised national brand name.

Upon successful privatisation in December 1999, PBZ became a member of Gruppo Intesa Sanpaolo – the largest Italian banking group and one of the most significant financial institutions in Europe. With this partnership, PBZ has retained its business strategy aimed at modern forms of banking and new products, confirming its image of a dynamic and modern European bank, which meets the demands of the market and its clients. The benefits of strategic partnership are clearly visible in the continuously improving financial results of the Bank, as well as of the PBZ Group. Along with the adoption of the business and corporate governance standards set by its parent bank, Privredna banka Zagreb has maintained the strategic development orientation of a modern, client oriented, technically innovative universal financial institution. PBZ is focused on the continued advancement of its economic performance well into the future, as well as strengthening its position as a product leader in offering the most progressive banking products, through the optimal mix of traditional and modern distribution channels. This ensures that PBZ will continue to be able to set standards of the highest quality for product innovations and services offered to both its domestic and international clients.

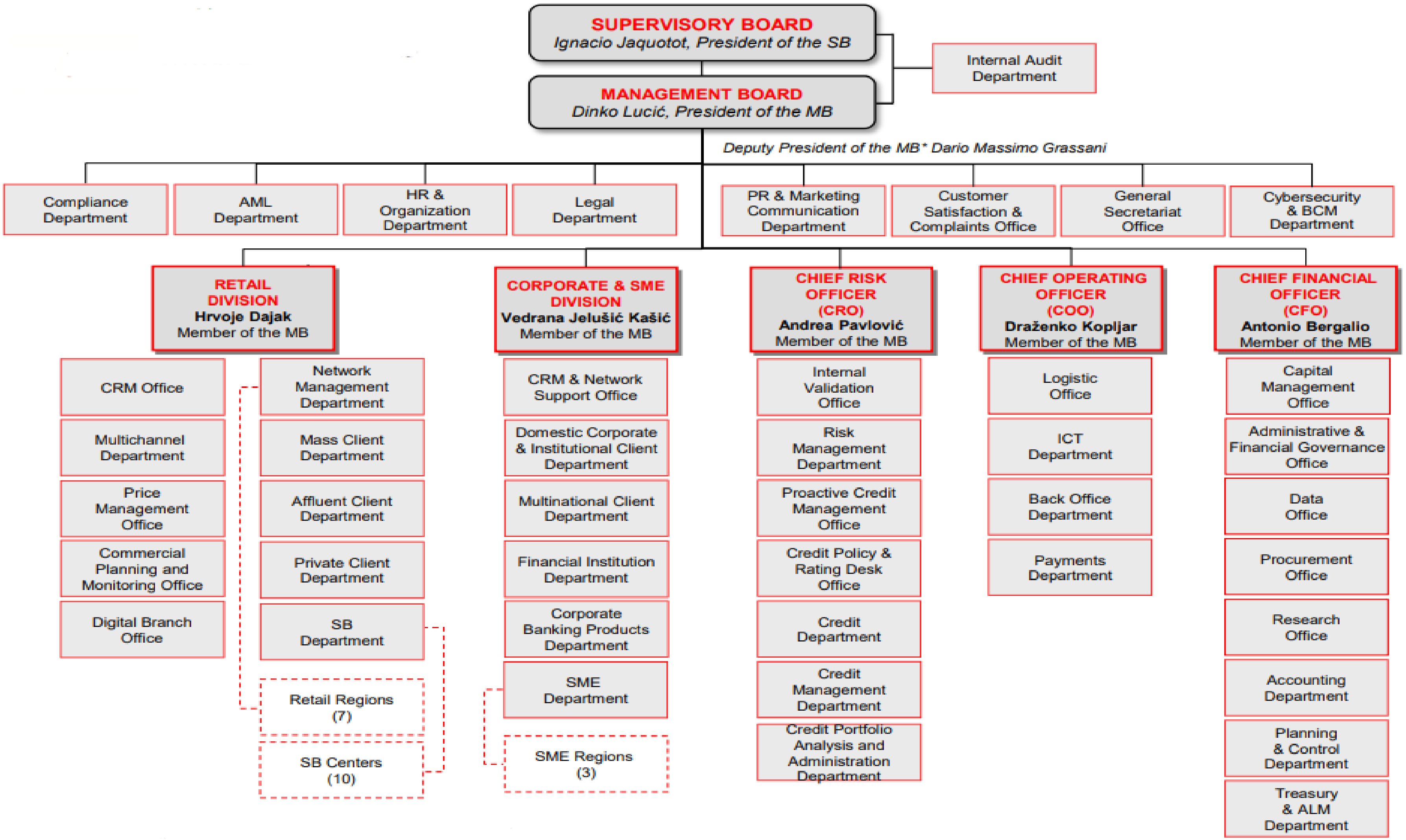
This commitment to quality and advanced banking practices is clearly seen by the fact that Privredna banka Zagreb received a numerous international and domestic awards and acknowledgments so far, which they joined in 2023:

- Employer partner certificate for 2023 - awarded by the company Selectio Solutions d.o.o.
- Top Employer Croatia 2023 – awarded by Top Employer Institute a global institution for recognizing excellence in human resources
- Best Employer Brand Awards 2023 in category Banking sector
- Acknowledgment Employer friend of the family - awarded by the Central State Office for Demography and Youth in the category of large companies

Privredna banka Zagreb currently employs 3,343 employees and provides a full range of specialized services in the areas of retail, corporate and investment banking services. The business activities of the Bank are organized into two principal client-oriented business groups and logistics area.

Business description of the Bank (continued)

Organisational chart



Neosjetljivo - Non-sensitive

Business description of the Bank (continued)

Retail Division

In the retail banking segment, Privredna banka Zagreb (the Bank) has a comparative advantage over its competitors due to the fact that it has the most extensive branch network in Croatia, consisting of 142 organizational units (branch offices and outlets) in 7 retail regions and 10 SB centers, which cover the entire territory of Croatia.

After the successful implementation of the New Service Model (through AGDM and AGD2M project in the period from 2018 to 2022), the improvement of the service model of the Bank's business network continues. As an excellent upgrade to the AGDM and AGD2M project in PBZ the implementation of the Retail+ program is underway, as well as the preparation and training of the business network for the implementation of new activities that are necessary for the successful functioning of branches and employees with clients. The transformation program of the Bank's business network has continued in 2023, and it has been enriched by the improvement and further development of the service model as well as the transformation of the digital business of the Bank.

More and more frequent and intense changes in the market bring new challenges daily, which the Bank must recognize, monitor and actively adapt to in order to continue to provide high quality customer service in accordance with their needs and growing expectations. The new service model follows the trends of changing customer habits by conducting activities dedicated to developing customer relationships. Through the new service model, simpler activities are being migrated from branch offices to direct channels and in branch offices replaced with activities that are more complex with greater proactiveness and dedication to the client.

As part of the Retail+ program the Bank continue to implement and to apply the three basic branch business models based on the availability of services to clients: Full service model - branches work in two shifts and all the bank's services are available to clients throughout the branch's working hours, Cashlight service model - branches work in two shifts, whereby the cash part of business is available to clients only part of the branch's working hours and Cashless service model - the cash part of business is going to be performed exclusively through 0-24 zones within the branch.

In 2023, PBZ also prepared a special offer of housing loans with a government subsidy intended for the purchase of an apartment / house or building a house, according to the Law on Subsidizing Home Loans and its Amendments (OG 65/17, 61/18 and 66/19) and confirmed its leading position in the market share in this segment of retail lending which significantly contributed to the increase in the total market share of housing loans on the market.

Our focus on the client is confirmed by "Innovation", a reward program for clients who use several product groups (up to 8 of them) and who are granted discounts on fees.

In addition to restructuring and repositioning the traditional distribution channels of the business network, PBZ continues to invest in the ATM network development with acceptance of Maestro, MasterCard, Visa, Diners, American Express and UnionPay cards, creating new revenues in cooperation with partners; Croatian and foreign companies with an independent network of ATMs. Together with the partners, the PBZ ATM network has more than 760 ATMs and 22 self-service devices for the payment of coins.

In 2023 the number of POS terminals was 24,823. On March 1, 2023, a new strategic partnership between PBZ Card and Nexi Croatia began in the segment of accepting card payment transactions at points of sale. The joint approach of Nexi Croatia, a member of the Nexi Group - the leading European PayTech company, and PBZ Card, the leading card house in Croatia, brought simple, fast and reliable payment solutions to the points of sale, which are already used by more than two million merchants across Europe.

Business description of the Bank (continued)

Retail Division (continued)

In the new card acceptance model, PBZ Card remained in charge of concluding contracts on card acceptance and maintaining business relations with merchants, performing these tasks in the name and on behalf of Nexi Croatia. Nexi Croatia, as a new provider of card acceptance payment services, is focused on the development of products and functionalities of the acceptance network, devices and channels, as well as providing operational support for card acceptance. The new business model was implemented while ensuring continuity in the provision of card acceptance services at the points of sale of contractual partners/merchants, without the need for additional technological adjustments.

Not long after the start of the new strategic partnership, PBZ Card and Nexi Croatia offered the market a modern and innovative PBZ Card SoftPOS application for accepting cards via mobile phones and smart devices. The application enables contactless payment with all Visa, Mastercard and Maestro payment cards, as well as through Google Pay and Apple Pay wallets, with the greatest possible security and simplicity. Thanks to sending consumption records via SMS, e-mail, QR code, WhatsApp or Viber, instead of printing it, the PBZ Card SoftPOS application contributes to the preservation of the environment and operates in accordance with sustainable development. Active contracting of the PBZ Card SoftPOS application began in the second quarter of 2023. By the end of the year, 360 partners contracted this application and it was installed on 982 devices.

As a leader in modern technologies, PBZ has expanded its distribution channels and products using the most advanced technology in implementing its *on-line* banking services. The latest digital trends are part of the clients" daily routines, and PBZ wants the clients to have such an experience when doing business with the Bank. Therefore, developing modern platforms for internet banking and mobile applications, clients can access their accounts 24 hours a day, seven days a week, from any location in the world with internet access. The PBZ digital Banking service is a concept of internet banking and mobile banking applications with a wide range of functionalities that meet all the needs of clients with access to a whole range of banking services via mobile phone. With the possibility of personalizing the application according to the needs and wishes of the clients, the interface provides a unique user experience regardless of which device the clients use (computer, tablet or mobile phone).

With the improvement of existing functionalities, clients have at their disposal numerous new options and functionalities such as #withKEY (a mobile token integrated into the mobile banking app that, in addition to easier access to internet banking, can be used to access the e-Citizens system and confirmation when making online purchases – 3D Secure), #withCASH (cardless cash withdrawal), #withPAY (a payment concept between the service users using a mobile phone number), #withSAVE (a small daily savings concept), #withSIGN (qualified electronic signature that allows a user to sign contracts for banking and financial services without having to go to the PBZ branch office), Google Pay and Apple Pay (contactless payment at points of sale by mobile phone), the possibility of subsequent instalments via the mobile application of purchases with the Visa Inspire card online or at the point of sale domestic and abroad, app login using fingerprints or face identification, quick overview of the balance without logging into the app, the option to receive automated notifications to the mobile device on account and product changes according to the user's selection, contractual documentation and receipts of completed transactions all in one place in the application, the option to transfer funds between user accounts without authorization, transfers of small amounts to the trusted beneficiaries without authorization, defining their favourite recipients, Scan and Pay functionality (the option to pay payment slips which have a 2D bar code), cards PIN overview, CAP – capital accumulation plan etc. Thanks to the Remote Offer functionality, PBZ Digital Banking users can sign documentation online and carry out some transactions without going to a branch. Privredna banka Zagreb is one of the first banks to implement instant payments at the national level, enabling clients to pay bills or transfer funds in less than 10 seconds 24/365.

Neosjetljivo - Non-sensitive

Business description of the Bank (continued)

Retail Division (continued)

These achievements have firmly established PBZ as the Croatian market leader in electronic banking, as well as the technological leader on Croatia's financial market. PBZ was one of the leading banks in Croatia to implement secure e-commerce based on 3D Secure technology (Verified by Visa and Mastercard SecureCode) and CAP/DPA technology for user authentication. PBZ has also introduced innovative service – an Internet channel for distribution of investment banking services, now brokerage services on the domestic stock exchange and as well as custody accounts. In the area of retail product development, PBZ is constantly monitoring market demands and improving its wide range of products and services accordingly.

PBZ recognized the strategic importance of incorporating ESG factors into banking operations and lending activities. Applying ESG principles, ESG rules and guidelines were defined to guide the Bank in creating, approving and classifying sustainable products in order to achieve a standardized and aligned approach. Based on identified needs, PBZ recognized its role in the environmental protection and social responsibility, and therefore amended and extended its product offer with loans such as Energo loans, Educa loans for financing tuition and student cost of living, non-purpose loans for retired persons, socially stimulated housing loans, housing consumer loans with state subsidy, etc. In addition to responding to market requirements, PBZ is monitoring regulatory and legislative requirements and timely adjusting its products and services to them.

The Bank, conduct the partnership with Generali insurance in order to strengthen operations in the field of bancassurance on the Croatian market and provide a complete insurance offer for individuals, families and companies.

Overall, in the period from 2000, PBZ established itself as the market leader in retail loans with 21.4% share in the loan market on the Group level. In the area of savings, the PBZ Group holds 23.2% of all retail deposits in Croatia.

In the 2023, PBZ's Retail Division comprise the following departments: *CRM Office, Multichannel Department, Price Management Office, Commercial Planning and Monitoring Office, Digital Branch Office, Network Management Department, Mass Client Department, Affluent Client Department*, *Private Client Department and SB Department*.

CRM Office

Customer Relationship Management (CRM) office serves as a central hub for building and sustaining relationships with Individual and Small Business customers. This customer-centric office is dedicated to understanding and addressing distinctive financial needs of each customer. The CRM office uses technology and data analytics to discover insights and hidden patterns, analyses client behaviours, coordinates tailored communication to customers and tracks interactions. With the primary goal of improving customer satisfaction, the CRM office plays a crucial role in collecting customer feedback which is cornerstone in the process of continuous improvement and providing excellent banking services. Acting as a bridge between customers and various banking departments, the office collaborates with internal stakeholders in implementation of business strategies and delivering seamless and satisfying banking experience to our clients.

Neosjetljivo - Non-sensitive

Business description of the Bank (continued)

Retail Division (continued)

Multichannel Department

The goal of the Multichannel Department is to identify innovative digital solutions and state-of-the-art models in order to achieve sustainable, long-term competitiveness in the market. By defining a complete, omni-channel approach in the financial user experience, combining technological solutions with the daily needs of users, digital banking solutions for small businesses and citizens are developed and maintained. The Multichannel Department is responsible for defining and implementing new digital functionalities, maintaining online (internet and mobile) distribution channels, enabling the Bank's product and service offering on the mobile application and internet banking, improving the user experience in coordination with various stakeholders, developing and improving ATM network and other self-service terminals, as well as enabling and supporting contact options in direct channels in cooperation with the Service Center. Development activities include participation in research and development of innovative multichannel solutions with the aim of improving the user experience and achieving the Bank's strategic goals, supporting the integration of CRM solutions in direct distribution channels and developing own and partner ATM networks. Defining business and commercial strategies in cooperation with marketing with the aim of raising awareness of digital banking, achieving sales goals through user education, training and improvement of online banking sales in the Bank's branch network.

Price Management Office

The activities of Price Management Office encompass qualitative and quantitative analysis, as well as analysis of financial impacts related to pricing, measurement of key indicators for price realization and monitoring of market dynamics. Responsibilities of the Office include participation in price definition in cooperation with business segments, assessment of effectiveness of pricing activities and recommendation of corrective actions in case of need, as well as definition of business requirements and supervision over implementation and delivery of pricing tools.

Commercial Planning and Monitoring Office

Commercial Planning and Monitoring office are responsible for monitor budget achievement of Retail and Small business Division by Segments, and to timely provide detailed reports related to the fulfilment of the assigned targets to Network Management Department and to Segment Departments. The office assists the different functions of the Retail and Small business Division in the set up and the planning of the necessary action plans, in the event of significant deviations from the commercial targets. It is responsible for monitoring sales campaigns trends and their retention ratio, in cooperation with Multichannel & CRM.

The office provides qualitative and quantitative analysis on the performances of the Retail and SB Network and of the Digital Channels, through the development of commercial productivity analysis models, and to produce periodic and ad-hoc reports to Segment Departments.

Digital Branch

Digital Branch has the aim to providing information and support for the use of the Bank's products and services for clients (individuals and legal entities) through the inbound contact centre. They also execute proactive sales activities through outgoing calls, which includes the fulfilment of the contact strategy and onboarding calls to new clients of the Bank.

Digital Branch office is responsible for support to the SB business network in resolving inquiries related to the credit process and payment products and services, central opening and account closing, processing of non-standard contractual documentation in the part of the credit process for SB clients, as well as resolving business client complaints in cooperation with the SB business network and the Customer Satisfaction Office.

Neosjetljivo - Non-sensitive

Business description of the Bank (continued)

Retail Division (continued)

Digital Branch (continued)

Additionally, they are responsible for the development and management of business relationships with SB clients remotely, without physical contact with clients:

- Providing information to clients and support for using the Bank's products and services.
- Implementation of marketing campaigns and presentations of the Bank's products and services for the purpose of sales.

Network Management Department

The Network Management Department is responsible for organization, development, coordination, support and monitoring of the Retail Business Network, the fundamental distribution channel with Bank's retail clients, subcontractor sales network and credit intermediaries, as well as for the centralized control of documentation and the justification of the purpose of opening an account for medium and high risk clients and approval of the establishment of a business relationship with the client, conducting an in-depth analysis of medium and high risk clients and the implementation of the suspension of business relationships with natural person clients.

The most important responsibilities of the Network Management Department include organization, management and support of the retail and small business network related to the processes within the Department competence~~,~~ managing subcontractor sales, capital investments and investments into business network, HR management of business network, participating in specifying and dividing budget amounts and remodeling the setting of targets, measuring effects and awards in the business network and conducting development and education of HR, defining and continuously advancing working modalities of branches and communication of branches with central functions, improvement of existing and implementation of new work processes and application of regulatory requirements in the business network, as well as prescribing procedures and work instructions for employees related to processes within the Department competence, as well as planning and introducing new technologies in business.

Mass Client Department

The "Mass" Client Department is responsible for defining and implementing business and commercial strategies, products and services as well as value propositions and pricing for the Classic and Premium segment. Its task is also designing and updating the "customer journey" for the-Classic and Premium segment, supporting and providing commercial coordination to the Classic and Premium-related sales force in the Branch Network, supporting the Branch Network and the sales channels in adopting the defined strategies in order to reach the sales target of the Classic and Premium segment. Responsibilities of the Mass Client Department includes the development, management and updating of financial products and services related to Current Accounts and Transaction Products, Mortgages, and Personal Loans for Retail clients of all segments.

In co-operation with PBZ Card d.o.o. it manages and updates products and services related to Cards business and is responsible for monitoring quality of externalization services provided by PBZ Card d.o.o. and Nexi Croatia d.o.o. and Nexi Slovenija Ltd.

Neosjetljivo - Non-sensitive

Business description of the Bank (continued)

Retail Division (continued)

Affluent Client Department

The "Affluent" Client Department is responsible for defining and implementing business and commercial strategies, products and services as well as value propositions and pricing for Affluent segment. Its task is also designing and updating the “customer journey” for the Affluent segment, supporting and providing commercial coordination to the Affluent-related sales force in the Branch Network and providing sales coordination for Affluent segment, supporting the Branch Network and the sales channels in adopting the defined strategies in order to reach the sales target of the Affluent segment. Responsibilities the Affluent Client Department include the development, management and updating of products and services related to time deposits for individuals in all segments, products and services related to investments and life and non-life insurance in cooperation with Eurizon Capital, Banca IMI ISP Division Insurance, Generali insurance and other local partners, and the management and updating the investment advisory service.

Private Client Department

Private Client function is responsible for defining and implementing business and commercial strategies, products and services as well as value propositions and pricing for Private segment. It coordinates commercial activities of Private segment and sets and monitors key performance indicators and fulfilment of targets of Private segment.

Most important activity is serving Private clients in fulfilling their financial needs in the professional and prudent way within our investment advisory service. Our private bankers are dedicated to providing investment advisory and ensure high quality of service toward our Private clients traditionally maintaining long term business relationship.

SB Department

SB Department is primarily responsible for the organization, portfolio management and sales monitoring, sales coordination and support, service model improvement SB network, processes and products.

SB Department has the aim to set up, maintain, manage and develop relationships with SB clients in order to strengthen the Bank's presence in that segment in line with the strategy and to achieve the segment’s sales targets and a high level of customer satisfaction.

Additionally, SB Department has the aim to identify customer needs, ensure coordination of sales for this segment and provide support to the SB network and sales channels in order to achieve customer satisfaction.

Within the Retail Division is established SB Network organized through SB Banking Centers. SB network is created by separating micro enterprises and craftsmen (SB segment) from the existing SME regions.

The service model of clients has been fully implemented in a way that the arrival of clients is planned by arranging a date for a meeting with the RM. The same contributed to a better organization of sales activities by the RM. Through 2023 based on regulatory requirements, priority was given to updating client status data (KYC questionnaires, deep client analysis) and checking potentially suspicious and controversial transactions (Norkom alerts). In 2023, there was an active process of client migration to new digital banking that offers internet and mobile banking services with new functionalities (#with KEY, #with SIGN).

Neosjetljivo - Non-sensitive

Business description of the Bank (continued)

Corporate Division

Privredna banka Zagreb is one of the leading Croatian banks in the field of corporate banking. Taking into account a wide range of products and services offered to its corporate clients both locally and internationally, it is difficult to find a major company in Croatia today that does not bank with Privredna banka Zagreb. Supported by powerful electronic distribution channels, our network of well-organized branches is the key driving force in serving our clients efficiently. We strive to create additional value by providing integrated financial solutions designed to satisfy the individual requirements of our clients.

Privredna banka Zagreb has developed a modern platform to support the execution of classic cash transactions as well as other transactions of its corporate clients. A wide network of correspondent banks, and its SEPA reachability, make it possible for the Bank to offer its clients fast and affordable services in the area of national, cross-border and international payment transactions.

At the beginning of 2023, a complex project of the changeover from the Croatian kuna as the national currency to the euro was successfully implemented, and, during this process, we upgraded the Internet banking service for corporate clients - PBZ COM@NET, which supports all types of national, cross-border and international payments, also allowing access to a number of other products and services offered by Privredna banka Zagreb. In terms of investment banking, Privredna banka Zagreb is a dominant participant in the Croatian market. It has launched many contemporary products and has initiated and largely contributed to the development of the financial market in the country. Because of its active role in the primary and secondary capital market, PBZ has been recognized as a market leader. We are determined to keep the position of the best financial institution in the region. Such recognition has been given to us by our clients because of our ability to deliver the best service in everything we do.

The Corporate & SME Division consists of the following organizational units: Domestic Corporate & Institutional Client Department, Multinational Client Department, Financial Institutions Department, Corporate Banking Products Department, SME Department and CRM & Network Support Office.

The Domestic Corporate and Institutional Client Department

The Domestic Corporate and Institutional Client Department is responsible for business relationships with the largest domestic corporate clients, central government and public sector entities. Business activities of this Department include presentation and sales of Bank products to existing and potential clients, preparing and organizing specific presentations for the sale of products and services of the Bank, advising clients on all forms of financing and creation of the best possible solution for the respective entity, submitting offers to clients, providing incentives for product development and coordination between all organizational units of the Bank and the concerned client. In cooperation with other organizational units, the Department offers all types of banking products and services such as opening of business accounts, contracting Internet banking, various models of deposit transactions, granting all types and forms of short-term and long-term financing, including loans from external sources, club loans and syndicated loans, project financing, factoring, letters of guarantees, letters of credit, cash handling services, cash pooling, as well as services in card operations, leasing, investments in funds, multipurpose facilities, providing financial support to export-oriented businesses and other innovative solutions adjusted to the requirements of each single client.

In coordination with other units of the Bank, we participate in cross-selling of all the PBZ Group products.

Neosjetljivo - Non-sensitive

Business description of the Bank (continued)

Corporate Division (continued)

The Domestic Corporate and Institutional Client Department (continued)

The Domestic Corporate and Institutional Client Department also provides agency services to clients, by performing transactions on behalf and for the account of the particular principal, as well as by carrying out activities in its own name and for the account of the principal – all in accordance with the mandate of an agent, as agreed in a specific case. In every segment of its business activities, operations and services, the Department seeks to promote the highest banking standards, first and foremost by fostering a highly professional as well as flexible approach both to its present and potential clients.

Multinational Client Department

Multinational Client Department is responsible for establishing and managing business relationships with companies in foreign ownership, foreign legal entities – non-residents, including diplomatic missions and consular posts, foreign legal entities' representation offices, foreign associations, foundations and other non-profit organisations and international missions. The Department provides clients with a full range of banking services by offering both standardized and customized products in cooperation with other organizational units of the Bank and of the PBZ Group, also in coordination with the Intesa Sanpaolo Group.

Clients receive an individualized approach, in response to their specific needs, and are provided with various banking services as well as support in all aspects of their business activities. The following banking products and services are available to clients: opening of transaction accounts/sub-accounts, centralized account management, contracting of internet banking services for businesses via COM@NET and services of INBIZ internet banking Intesa Sanpaolo for Multinational clients, Global and National Cash Pooling, Global Cash Management, deposit transactions and liquidity surplus management, cash handling services (organization, collection and transportation of cash), service of using smart safes in cooperation with external partners, approval of all types of loans from own funds and/or borrowed assets/other resources, including sources of development banks and syndicated loans, purchase of receivables (factoring arrangements), issuing of guarantees and letters of credit, and other services for any form of financing, card operations, leasing, retail products designed to offer specific benefits to our corporate clients' employees, in terms of business cooperation, and many other products and services.

The Department also provides the service of initial capital payment to foreign investors when establishing a company/branch office in the Republic of Croatia, as well as information on the Bank's operating conditions in Croatia, which are crucial for the realization of foreign investors' planned business activities in the Republic of Croatia. Also, the unit renders information services to domestic clients about the terms and conditions for the opening of non-resident accounts in countries in which the Intesa Sanpaolo Group is present and in which the Bank's clients plan to start doing business and facilitates making of contacts and connections with potential business partners – clients of the Intesa Sanpaolo Group member banks in the country of planned expansion of business operation.

Neosjetljivo - Non-sensitive

Business description of the Bank (continued)

Corporate Division (continued)

Financial Institutions Department

The Financial Institutions Department, as an important organizational unit within the Bank, is responsible for establishing, maintaining, promoting and managing a complex and extensive network of business relations between the Bank and more than 1000 domestic and foreign banks and other financial institutions (including investment and pension funds, payment services providers, etc.) in both emerging and mature markets. The Department is also responsible for participation in cross-selling of a wide range of various services and products offered by the Bank and PBZ Group, as well as for providing professional advice and offering individual, single source solutions, tailored to suit specific requirements of our existing as well as prospective clients.

New business opportunities are created based on mutual trust, continuity of relationships and personal commitment of our relationship managers, who provide support to our clients as reliable partners, supplying them with full information on the entire product range of the PBZ Group. Such attitude represents a sound foundation for consistent and successful maintenance of both the existing relations as well as creation of new business opportunities and establishment of mutually satisfying cooperation The Department is able to offer tailor-made financing solutions to all the Bank’s clients, including trade finance, loans and specialized arrangements with financial institutions (both domestic and international), buyer’s credits and forfaiting for the promotion of Croatian export, etc. In order to support payments and the documentary business of the Bank’s clients, the Bank has concluded a number of special arrangements and contracts, that together with the use of innovative possibilities in cooperation with renowned foreign financial institutions, contribute to easier operations of its clients abroad. It should be emphasized that PBZ is the first Croatian bank that has fully implemented Global Cash Management and one of the first offering SEPA payments to its clients.

By continuously investing in new channels and methods of effecting international payments, we are able to provide our clients with a highly efficient, time saving and cost-effective execution of their payments around the world. In close cooperation with its foreign bank partners, PBZ has achieved a Straight Through Processing (STP) rate of 99.9%, thus continuously, year after year, receiving STP excellence awards given by eminent foreign banks (Deutsche Bank AG, Citibank NA, JP Morgan Chase NA and The Bank of New York Mellon).

Through our well-developed correspondent network, Bank's clients have direct access to all world markets, which is crucial for their export and import activities. Thanks to the commitment of an experienced team of trade finance specialists who act in synergy with the team of relationship managers within the Department, the Bank is able to provide strong professional support to and facilitate financing of export-oriented customers, as well as imports of equipment, construction works, and other specific projects. In response to the needs of the market, the Bank has started to effect inland documentary payments, being the first bank in Croatia that offers such service to its clients.

In order to provide all Bank's clients with the best possible yet diverse offer, the EU Desk team has been set up within the Financial Institutions Department which actively provides clients with information and advisory services regarding EU financial instruments, programmes and EU Tenders. The Bank participates in a number of EU financial instruments, which transform EU funds into financial products such as loans, guarantees, and other risk-bearing mechanisms.

Further, acting in close cooperation with supranationals such as the European Investment Bank, European Bank for Reconstruction and Development, and the Croatian Bank for Reconstruction and Development (HBOR), PBZ provides funds for on-lending to its clients, i.e., for financing of projects aimed at improvement of environmental, health and safety standards, improvement of product quality and energy efficiency in line with EU requirements, and similar projects.

Neosjetljivo - Non-sensitive

Business description of the Bank (continued)

Corporate Division (continued)

Financial Institutions Department (continued)

The facts presented above prove our dedication to the highest professional standards in dealings with supranational institutions and the European Union.

Furthermore, the Bank has long lasting successful business collaboration with the Croatian Bank for Reconstruction and Development (HBOR) across all operations, including the implementation of a financial instrument structured within the National Recovery and Resilience Plan (NRRP). This instrument facilitates favourable financing for investments in the private and public sectors with an interest rate subsidy. The subsidy rate depends on the type of investment; for projects related to green or digital transition, the interest rate for the loan beneficiary can be reduced by up to 75%. For investments in specific areas of Croatia, including public sector investments in recovery from crises, RDI projects receive up to 65% reduction, and for other investments enhancing competitiveness and resilience, the reduction can be up to 50%.

In an effort to contribute to mitigation of the adverse effects of the Russian aggression on Ukraine on the Croatian economy and to assist entrepreneurs in preserving their financial stability and liquidity, collaboration has been established with HBOR through the programme for the insurance of loan portfolio and subsidising of the insurance premium. This serves as a temporary measure to aid the economy of the Republic of Croatia in accordance with the European Commission's Temporary Crisis Framework.

The Department is also responsible for ensuring the long-term funding of the entire PBZ Group, i.e. of the Bank and its subsidiaries.

Corporate Banking Products Department

Privredna banka Zagreb has always been focused on the clients and the client needs, and for that purpose, at the beginning of 2016, we carried out a reorganisation with the aim of making it possible for large and medium-size companies to be offered products and services from one central spot, where we can provide a comprehensive review of business operations and the needs of a particular client in today's dynamic and demanding business environment.

The Corporate Banking Products Department comprises the following functions: activities of the former Investment Banking Division – i.e. activities of the Capital Market Office, Custody Office and the Depositary Office, Brokerage Office, M&A Advisory Office, Structured Finance Office (which includes Syndicated Finance, Project Finance and Financing of Real Estate and Infrastructure Projects), Investment Analysis Office, as well as the Factoring Office and Transaction Banking Office.

Factoring

The Factoring Office offers various products that include the purchase of short-term good quality receivables prior to their due date. Factored receivables may be the existing and/or future, not-yet-due, complete or partial monetary receivables that result from the delivery of goods and/or provision of services by business entities in the country or abroad and which must meet all conditions defined in the Contract.

The Factoring Office is able to provide the following factoring services: domestic factoring, export factoring (involving two-factor system), import factoring and bills of exchange discounting. By selling the receivables, the user of the factoring service can reduce the time needed for collection of its short-term receivables and significantly improve its liquidity, without having to take a loan.

Neosjetljivo - Non-sensitive

Business description of the Bank (continued)

Corporate Division (continued)

Corporate Banking Products Department (continued)

Transaction banking

PBZ has recently paid a lot of attention to developing a range of transaction banking products intended for corporate clients, thus satisfying the demands of all client segments - from the smallest business entities to big multinational companies, which now have at their disposal a large variety of products, from those simplest ones, related to opening and maintaining transaction accounts, to more complex products, which enable large clients centralised management and the optimum use of funds.

The transaction banking products and services, as well as all other groups of products, are available to PBZ clients via a number of different electronic channels that range from a sophisticated system of Internet banking to the solutions for direct communication with the client systems. At the same time, PBZ devotes utmost attention to the development of the security systems in order to ensure maximum and full protection of business operations of its clients. Through cooperation with other banks of the Intesa Sanpaolo Group, PBZ has become a major player in the international market precisely because of the sophisticated and highly automated services it is able to offer to the most demanding groups of clients.

Investment analysis

Investment analysis serves as an indispensable source of information for the performance of investment banking operations and is equally valuable to other internal users, because - through preparation of industry research reports and corporate profiles/analyses - the relevant information is supplied regarding the trends in a specific industry or about the performance of a specific company. The tasks of investment analysis are carried out by the Investment Analysis Office within the Department, which is unique in terms of the scope of analytical activities and the type of analyses it can conduct/offer, and it should be mentioned that other banks, our competitors, have not developed investment analysis as a product i.e. a (highly sophisticated) service in this way, as is the case at PBZ. Apart from establishing and maintaining contact with relevant agencies and experts from specific industries and companies, the task of the Investment Analysis Office is also to set up and develop relevant databases.

Capital markets

PBZ has earned a reputation in the capital market as a leader in providing innovative financing solutions, which our capital market team has successfully designed and delivered to the state, to local government units, and also to a large number of corporate clients. Over the past period, a total of 52 clients used PBZ Capital Markets services in a total of 266 transactions.

We are number one in terms of the number of public offerings of shares (IPOs, SPOs) that have been successfully arranged for our clients from different industries for the purpose of capital increase. PBZ is also a major player in the domestic debt market; as such, we have participated in the majority of domestic sovereign, corporate and municipal bond issues and commercial paper issues, thus handling the major portion of the total amount of debt issued in the domestic capital market. Together with parent bank Intesa Sanpaolo, we have participated on international markets in Eurobond issues for Republic of Croatia and Croatian corporates.

In March 2023, we participated in the issuance of the first Croatian retail bond which recorded the largest participation of the retail segment in a single financial instrument on the domestic market. Additionally, we participated in the largest local issue of a corporate ESG bond.

Business description of the Bank (continued)

Corporate Division (continued)

Corporate Banking Products Department (continued)

Brokerage services

In addition to carrying out purchases and sales of securities on domestic and foreign stock exchanges, the Bank's brokerage services consist of providing detailed information on trading activities, as well as supply and demand, readily available through electronic trading systems, and prompt reporting of securities transactions. Due to the quality of its brokerage service, the Bank has been recognised in the domestic market as one of the leaders in this area, especially in electronic trading. The key driver of our brokerage business is the internet platform, PBZ Investor, completely developed in-house, primarily for retail and institutional investors. At the end of 2020 the functionality of buying and selling stocks has been implemented through mDigical application.

M&A Advisory Office

Our M&A Advisory Office provides advisory services related to mergers and acquisitions, corporate and financial restructuring and divestments, employee stock ownership programs, MBOs, LBOs and other transaction-based projects. We can provide support and assistance to clients aiming to enhance value of their business(es). We have a strong network and long-term presence across various industries, an in-depth understanding of the financial market dynamics and extensive experience in M&A advisory services area.

We have represented clients in a number of different industries, including tourism, food processing, confectionery industry, transport and logistics, IT, retail trade, pharmaceutical industry, construction, oil and gas industry, and others.

Structured Finance

As the ultimate leader in the domestic financial market in providing agency services, PBZ's Structured Finance Office provides syndicated and club financing facilities and project finance solutions to corporate and private investors, commercial banks, local government units and public entities.

Our team's dedication, breadth of experience, excellent market knowledge and an extensive business network of partners, both local and international, enable even the most complex transactions to be efficiently structured to suit clients' specific financing requirements. Privredna banka Zagreb has arranged syndicated loans for large transactions, both project finance and corporate deals, as well as bilateral loans in project financing, for clients from various industries, including infrastructure, healthcare, oil and gas industry, tourism, renewable energy, commercial real estate development (shopping centres), telecommunications, food processing, shipping, residential housing and other sectors. In addition to having a significant role in primary syndication, the Bank actively participates also in the secondary market (domestic as well as international) of syndicated loans.

Custody services and depositary services

The Bank takes great pride in providing top quality custody services to private and institutional clients from all over the world and has established itself as a highly reliable partner that delivers efficient local custody services, due to its in-depth knowledge of local legislation and market practices. At the same time, by establishing and continuously developing its own custodian network, the Bank is able to offer its domestic institutional and private clients easy access to local and foreign markets.

Also, by being entrusted with the role of a depositary for top Croatian pension and investment funds, we take all necessary steps to ensure that investors' assets are protected, managed and valued in accordance with applicable regulatory requirements and accounting standards. Our know-how and experience, combined with the ability to access local and foreign markets, provide our clients with the assurance that they will receive top-notch support required for the successful accomplishment of their business goals.

Neosjetljivo - Non-sensitive

Business description of the Bank (continued)

Corporate Division (continued)

SME Department

The SME Department is responsible for managing the SME business network that takes care of the portfolio of SME clients and provides them with a wide range of products and services, both standardized and those adapted to the needs of individual clients, in cooperation with other organizational units of the Bank as well as other members PBZ Group.

Management of relationships with SME clients is, in terms of organization of the SME business network, handled by 3 Regions: Zagreb Region, Continental Croatia Region and Adriatic Croatia Region, with 10 regional business centers that geographically cover the entire country, and with more than 80 employees ready to assist the clients. Activities and responsibilities of the regions and business centers include: establishment and management of business relations with SME clients, presentation of offers and conclusion of contracts relating to products and services of the Bank, i.e. involving all types of loans, guarantees, letters of credit, deposits, factoring services, a wide range of electronic banking and transaction banking services, as well as services in the area of card operations, leasing, etc. The SME business network also provides financial advice and offers optimal solutions for the financial needs of its clients, and, for the purpose of providing services to clients and negotiating contracts for the offered products, it coordinates activities with other organizational units of the Bank and other members of the PBZ Group.

The SME network cooperates with more than 4000 satisfied clients – joint stock companies, limited liability companies, craft businesses and other business entities all over Croatia.

In cooperation with national and EU partners (HBOR, HAMAG, EIB, EBRD and EIF), we provide medium-sized businesses with easier access to finance through developed business models, such as development loans for financing production, export, and other specific client needs, as well as through other specific loan programs and guarantee schemes.

The SME Department is primarily responsible for the organization, management of the client portfolio and sales monitoring, coordination and sales support, as well as improvement of the service model, relevant processes and products in order to enable its clients to access and use high-quality banking services.

CRM & Network Support Office

The main task of the CRM and Network Support Office is to provide various forms of support to Corporate and SME sales force i.e. relationship management functions in business activities, planning, realization monitoring, development activities and project-related, control, specialist and analytical activities, including also cooperation with other organizational units of the Bank and the PBZ and ISP Group as well as external consultants and auditors.

The activities are performed, in terms of organization, by 6 specialist teams within the Office: for CRM, Development, Credit Analysis, AML Competence Center, ESG Competence Center and Sales Support.

Support areas

Business areas focusing on client requirements can only fully exploit their potential if they are provided with a reliable and efficient infrastructure.

The Accounting Department, Planning & Control Department, Treasury & ALM Department, Administrative & Financial Governance Office, Procurement Office, Research Office, Capital Management Office and Data Office led by the Chief Financial Officer (CFO), provide skilful and in-depth support with regard to all financial monitoring and reporting matters, financial planning and budgeting as well as administrative assistance to the business areas.

Neosjetljivo - Non-sensitive

Business description of the Bank (continued)

Support areas (contined) Listed below are the basic roles the business functions (mission):

- mission of the **Accounting Department** is preparation the Bank's Financial Statements in accordance with the required standards, management, monitoring and taking into consideration all applicable tax laws and providing consultancy to all Bank's Structures on these matters, management of all accounting activities as well as preparation and submission of Regulatory reports to the National Bank and to the other Regulatory Authorities;

- mission of the **Planning & Control Department** is to assist the Top Management in assessing the overall and segment specific performance as well as the strategic and market position of the Bank and the Group. The Planning and Control Department provides the business divisions/departments with financial and business information (by segment, product, channel, geographical area and organizational structure) and to supports them in analyzing and monitoring the relevant trends. The Department manages the all-budget process (preparation of the strategic plan, budget and forecast for Bank and the Group), ensures the cost controlling of the Bank and the Group and identifies the strategies for capital allocation for optimizing the capital usage and maximizing the value of the Bank;

- the **Treasury & ALM Department** manages the liquidity of the Bank/PBZ Group in all currencies, the interest rate risk and the FX risks of the Bank/PBZ Group and the Bank/Group's securities portfolios. Furthermore, the Treasury and ALM Department carries out all the necessary (cash and derivative) transactions in the monetary and financial markets and with the Central Bank, in order to manage the above-mentioned activities within the limits assigned. The Treasury and ALM Department ensures the fulfilment of all relevant regulatory constraints and provides transaction execution services in the relevant financial markets for customers and sales functions;

- the **Administrative & Financial Governance Office** assists the Bank's Reporting Officer / CFO in the set-up, implementation and application of the Administrative and Financial Governance Model in line with the Group standards and regulations, reviews and assesses adequacy and effectiveness of the administrative and accounting procedures, as well as of the internal controls system on financial information through identification and evaluation of those processes that affect financial reporting and the relevant risks and controls. Furthermore, it reports to the Parent Company about the execution and the outcomes of the testing program, identified weaknesses and implementation of the related remedial actions;

- main duty and responsibility of the **Procurement Office** is management of the procurement process of all necessary goods and services for the Bank and its subsidiaries according to the Group Procurement Rules ensuring the regularity of the entire procurement process. The Procurement Office provides support to all the organizational units of the Bank and PBZ Group members in all the phases of the procurement process. Procurement Office acts in the role of the Outsourcing coordinator through activation of the assessment process involving competent functions in the process;

- the **Research Office** creates and maintains a database of all the relevant macroeconomic and financial indicators and of all the major microeconomic variables for the countries in which PBZ Group operates, produces regular reports regarding major macroeconomic and financial market developments (current and expected), provides ad-hoc analyses and research in the microeconomic areas of industry, trade and banking, and provides the inputs and forecasts regarding the covered countries, necessary for the annual budget and long term planning of the local Bank, in coherence with the Group guidelines;

Neosjetljivo - Non-sensitive

Business description of the Bank (continued)

Support areas (continued)

- main duties and responsibilities of the **Data Office** are to set up and maintain a proper Data Governance framework and the development of the data governance culture within the Bank. The Data Office oversees the content and the coherence of the data feeding for the Parent Company, ensures the effectiveness of the data quality controls and oversees the process of managerial reporting in the area of the corporate data management.

- Duties of the **Capital Management Office** are to manage Capital Plan, Resolution Plan and MREL requirements of the Bank and to coordinate respective activities with the subsidiaries, to monitor and to prepare forward-looking projections of Capital ratios, to identify the strategies for capital, participates in preparation of Recovery plan, ICAAP and SREP and in the budgeting process

ICT Department, Back Office Department, Payments Department and Logistic Office represent key business functions as part of the organization that serves the entire Bank by providing IT and communications assistance, supporting distribution channels and feeding the system with financial information.

- mission of the **ICT Department** is to identify the ICT needs of the Bank and to define strategies, solutions and initiatives regarding architectures, technologies, standards and rules. ICT Department designs, implements and manages the applications, the central and distributed technological infrastructures coherently with the defined budget and objectives. Furthermore, the ICT Department assures the implementation and management of the ICT security measures and oversees the related incidents management;

- the **Back Office Department** performs back office activities related to all banking products and services, continuously monitors their service level and performs book-keeping records for the Bank. The Department is proposing and participating in development of the relevant ICT solutions;

- mission of the **Payments Department** is to perform all the back office activities related to the outgoing and incoming payments, national, cross border and international in local and other currencies, performs the cash administration and handling activities and monitors processes related to SWIFT, ACH, SCT, SDD, CSM. The Payments Department supports development of new products and services and implementation of regulatory requirements related to payments and proposes the evolution of the relevant ICT solutions;

- mission of the **Logistic Office** is to define the strategies and to manage the real estate portfolio of both Head Office and network structures and assures the effective and efficient maintenance of all Bank’s physical assets then to perform activities related to the general services and also to ensure environmental protection in respect of local and the Group requirements and to oversee organization’s environmental performance, developing, implementing and monitoring environmental strategies that promote sustainable development.

Business description of the Bank (continued)

Support areas (continued)

Chief Risk Officer (CRO) area is a crucial part of our commitment to providing consistent, high-quality returns for our shareholder. It is our belief that delivery of superior shareholder returns greatly depends on achieving the appropriate balance between risk and return. Role of the Risk Management and Control Division is to protect the Bank from the risk of severe loss as a result of unlikely events arising from any of the material risks that Bank face and to limit the scope of materially adverse implications to shareholder returns. Within this area are the following structures: Risk Management Department, Internal Validation Office, Proactive Credit Management Office, Credit Policy & Rating Desk Office, Underwriting Department, Recovery Department and Credit Portfolio Analysis and Administration Department.

- **The Risk Management Department** develops the Bank's risk management strategy and relevant policies, develops models in order to manage and control of all risks, and identifies, evaluate, manage, monitor and reports on all types of risks. The Department monitors capital requirements in order to provide support to top management in the capital adequacy assessment process and monitors the quality of the credit portfolio. It prepares and proposes updates to the Risk Appetite Framework (RAF) and related risk governance policies, verifies the adequacy of the RAF framework and identifies the ways to improve / optimize the risk appetite. The Department performs second-level controls over the credit portfolio in terms of quality, composition and trends/patterns as well as in terms of single name exposures and classification; as well as with regard to other material risks and monitor the 1st level (line controls and managerial analysis) in terms of credit processes and proper implementation; as well as with regard to other material risks;

- mission of the **Internal Validation Office** is to validate, for the Bank and PBZ subsidiaries, the internal models already operative or under development with regard to all risk profiles covered by Pillars I and II of the Basel Accord and to manage the internal validation process at the Group-level in line with the Parent company guidelines and in cooperation with the Regulatory Authority, then to verify performance and correct functioning of internal systems, including back testing analyses and benchmarking and periodically issue recommendations to operational functions in relation to performance, functioning and use of the internal systems;

- **Proactive Credit Management Office** contributes to the implementation of an early warning system based on borrower's monitoring so to early/timely identify signals of customer's financial/commercial difficulties, design and activate the necessary measures/action plan for identified clients. Furthermore, this function analyses trends of specific credit indicators aiming at identifying retail products/client sub-portfolios showing increase of risk and in collaboration with the relevant functions defines proper corrective actions;

- the role of the **Credit Policy and Rating Desk Office** is to prepare and review, in co-operation with the relevant local and Parent Company functions (where applicable), the local credit framework (credit policies and other credit regulations) in compliance with both local and Parent Company requirements; evaluates rating override proposals and/or assigns ratings to counterparties / transactions requiring specialized evaluations, in accordance with the regulations in place and collaborates with the competent Bank and/or Group structures for initiatives aimed at improving the technical support and overall credit processes (analysis, granting, administration, etc.);

- mission of the **Underwriting Department** is to ensure the effectiveness and efficiency of the credit granting processes in relation to performing counterparties, with the purpose of ensuring adequate credit quality, risk mitigation, operational ease and smooth decision making;

- the **Recovery Department** identifies and promotes the best strategy in order to maximize the recovery or minimize the losses deriving from the credit activity; provides support relevant decision-making bodies in the timely identification of the non-performing clients and proactively manages the non-performing clients (Doubtful and Unlikely to Pay);

Business description of the Bank (continued)

Support areas (continued)

- mission of the **Credit Portfolio Analysis and Administration Department** is control of loan/credit documentation before loan utilization in order to reduce the operational risk, utilization of loan, care about integrity and completeness of loan/credit files in accordance with internal rules, policies and regulatory provisions, operative management of the loan/credit files and collaterals, ensuring a comprehensive view of the credit portfolios and coordinating all activities related to the 1st level credit controls.

The Internal Audit Department, General Secretariat Office, Human Resources and Organization Department, Legal Department, Compliance Department, AML Office, PR & Marketing Communication Department, Customer Satisfaction & Complaints Office and Cybersecurity & BCM Department are integral elements of the overall logistics and support of the business groups and the management.

- main duties and responsibilities of the **Internal Audit Department** are to ensure a constant and independent monitoring on the regular way of conducting the Bank's activities and on the Bank's processes in order to prevent or highlight anomalous or risky behaviours or situations, evaluating the functioning of the Internal Control System and its suitability to guarantee the efficiency and effectiveness of company's processes, the safeguard of assets and the prevention from losses, the reliability and integrity of accounting information, the compliance of the performed transactions with the policies established by the governance bodies as well as with the internal and external regulations. The Internal Audit Department provides advisory to the Bank's functions and units, also by means of participating to projects in order to create added value and to improve the effectiveness of control processes, risk management and governance activities, supports the company's governance and ensures the Top Management, the Internal Bodies as well as the Regulators (i.e. Central Banks) with a prompt and systematic information flow on the Internal Control System status and on the findings of the activities carried out. The Internal Audit Department ensures the monitoring on the Internal Control System of Subsidiaries through audits or by governance activities to be executed towards relevant internal auditing functions;

- the **General Secretariat Office** provides comprehensive support to facilitate the execution of Bank's Bodies meetings, as well as Internal Committees, and to manage the relationship with the Parent Group, the supervisory authorities and other regulators with reference to Bank corporate governance and legal status matters. Furthermore, the Office provides legal support to the relevant structures of the Bank in the field of corporate governance and legal status matters at the level of the Bank, which includes interpretation and application of the Companies Act, the Credit Institutions Act, and other regulations in the sphere of status law/corporate governance;

- mission of the **HR & Organization Department** is to govern the planning, development and management of human resources by guaranteeing the recruitment, remuneration, staff mobility and training of the human resources as well as the assignment of responsibilities, and by paying attention to the enhancement of expertise, skills development, merit recognition and internal satisfaction levels. It manages internal communication initiatives aiming at facilitating development of the corporate values and culture and to plan, design and manage instruments that enable the integration of social and environmental responsibility and sustainability within Bank's activities. Furthermore, it supports the development of the Bank by leveraging all organizational assets (such as models, sizing tools, processes and rules), as well as by providing support to the Bank in project management and by coordination of the demand management of IT services

- mission of the **Legal Department** is to provide legal assistance to all organizational units of the Bank aiming at assuring a proper interpretation and application of laws and regulations and to provide the representation and defence of the Bank's interest in legal disputes and other legal proceedings;

Neosjetljivo - Non-sensitive

Business description of the Bank (continued)

Support areas (continued)

- the **Compliance Department** guarantees effective and efficient governance of the compliance risks and associated controls according to the provisions of local Authorities and the Parent Company Guidelines, ensures constantly monitoring that the Bank and its employees are compliant with the requirements of General Data Protection Regulation (GDPR), also providing advice to the Group's corporate functions for data protection impact assessments, where requested by the data controller / data processor and ensures support and communication with the regulatory authorities (primarily the ECB – JST and the CNB) and coordinates activities in the Bank / Group related to specific and ad hoc requests / queries, the preparation of which involves the participation and engagement of several different business areas of the Bank / Group members and which fall outside the scope of regular competence of individual business functions;

- mission of the **Anti-Money Laundering (AML) Office** is to ensure and provide the management of anti-money laundering, terrorism financing and embargoes in the Bank according to indications of Parent Company Guidelines and Local Authorities;

- mission of the **PR & Marketing Communication Department** is to manage and coordinate the communication activities addressed to external audience with the purpose of providing them with economic, financial, institutional and regulatory information and developing and enhancing a positive corporate image and reputation of the Bank itself and PBZ Group in the whole as well as to plan and to implement promotion of the products and services of the Bank and PBZ Group members for all segments;

- the **Customer Satisfaction & Complaints Office** is responsible for promoting the improvement of the customer experience, increasing of the customer satisfaction and loyalty and setting up a consumer-centric culture within the Bank. The Office is responsible for monitoring and analysing of the customer satisfaction and loyalty, the level of quality of provided services and to identity, to undertake and to monitor activities and plans for improvement of the customer's satisfaction. The Office is responsible to handle customers written complaints, disavowals and appeals to ADR from customers (through recording, handling, reporting and conducting of analysis with the purpose of introduction for necessary improvements);

- mission of the **Cybersecurity & BCM Department** is to define strategies and policies related to cybersecurity and information security matter, physical security (including occupational health and safety duties), business continuity and fraud prevention, to oversee their correct implementation, to manage risks linked to specified areas. This unit manages the Business Continuity Plan of the Bank, monitors activities in order to detect and handle any fraudulent actions, defines health and safety at work measures and assure their correct implementation. Role of Department is to spread culture of cybersecurity and information security, physical security (including occupational health and safety duties), fraud prevention and business continuity within the Bank by identifying the needs of awareness, communication and education of employees and by developing contents and the educational trainings. Department's duty is to coordinate at PBZ Group Level all activities related to cybersecurity, information security, Business Continuity Management, physical security and health protection executed by PBZ subsidiaries.

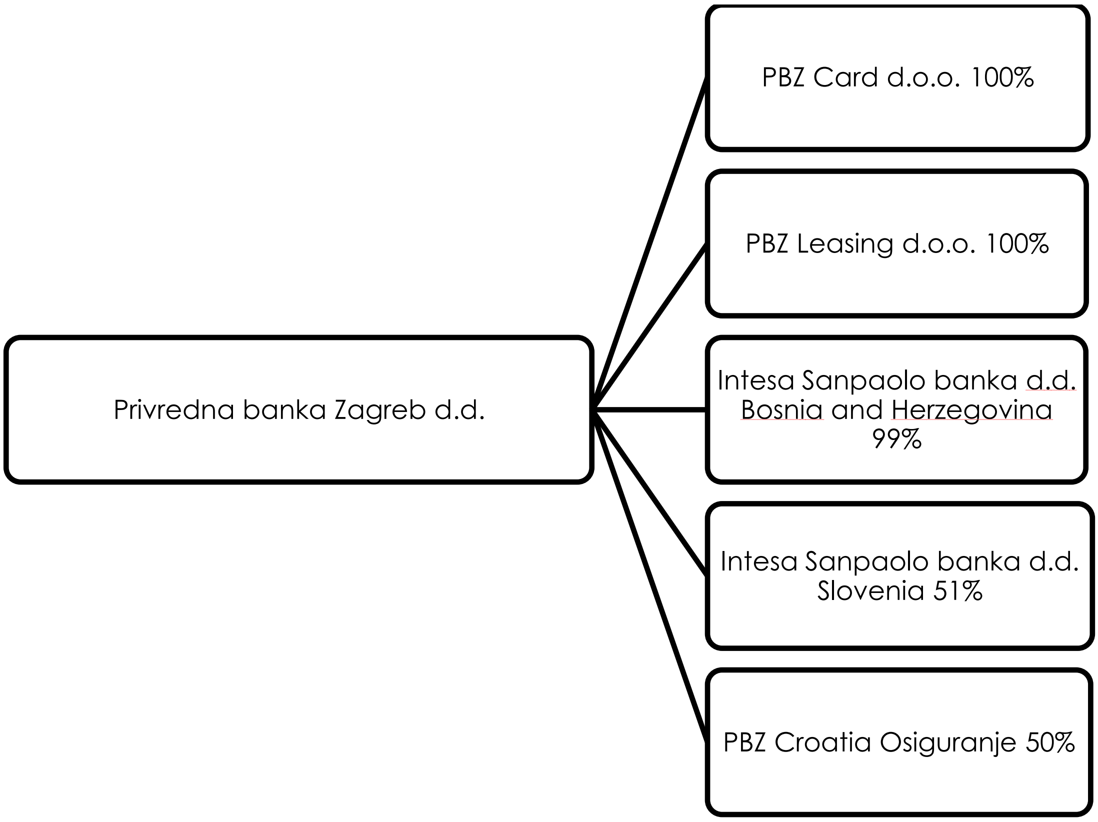
Business description of the Group

Joining the Intesa Sanpaolo Bank d.d. Bosnia and Herzegovina in 2015 and Intesa Sanpaolo Bank d.d. Slovenia in July 2017 the Privredna banka Zagreb Group is a multinational based financial services group which provides a full range of retail and corporate banking services to customers in Croatia, Bosnia and Herzegovina and Slovenia.

At the end of 2023 the Group employs 4,885 employees and serves almost 2 million both private and corporate clients in three countries. PBZ Group is a well-organised institution whose market share in the overall banking system stands at 20.5% in Croatia (data from November 2023), 6.9% in Bosnia and Herzegovina and 7.5% in Slovenia.

On 31 December 2023 the Group consisted of Privredna banka Zagreb and 4 subsidiaries and one associate (31 December 2022: 4 subsidiaries and one associate).

The composition of the Group and a brief description of each subsidiary are set out below.



PBZ Card d.o.o.

PBZ Card d.o.o. is a leading company in business with charge and credit cards for citizens and businesses and is also in charge of real estate business. Together with its strategic partner Nexi Croatia, PBZ Card provides the service of acquiring and building a sales network for Mastercard, Visa, UnionPay and American Express cards. The company's range includes a wide range of card products, including Premium Visa cards of PBZ Card and Visa and Mastercard cards of Privredna banka Zagreb, like charge, debit, credit, pre-paid and other cards, intended for individuals and legal entities. PBZ Card d.o.o. bases its success on rich knowledge and experience in card business built over more than fifty years and a strong position built by Privredna banka Zagreb as a leading bank in the introduction of new technologies and products in card business.

Business description of the Group (continued)

PBZ Card d.o.o. (continued)

The year 2023 is the first year that the euro became the official currency of the Republic of Croatia. Thanks to careful planning of all activities and timely adjustment of numerous business processes, starting as of January 1, 2023, PBZ Card enabled its cardholders and points of sale to use all services and functionalities of Premium Visa cards unhindered, even after the introduction of the new currency.

The digital transformation of the company's offer and operations continued during the year 2023. Accordingly, the growth trend of contactless payments continued by introducing new and improving existing solutions and services thus enabling simpler and faster transactions, the security of which is, at the same time, at the highest level guaranteed by the 3-D Secure program.

The MyWay mobile application intended for the Premium Visa cardholders has been upgraded with a new version that, in addition to a new refreshed look, has also brought new functionalities, such as independent blocking and unblocking of the card and an overview of current Premium offers. In the second half of the year, the offer was expanded with a new functionality - Premium Visa Prepaid card, which can be requested by basic Premium Visa Gold, Premium Visa Platinum and Premium Visa Infinite cardholders through the MyWay mobile application. This internationally valid card is available for one-time payments at points of sale, as well as contactless and online payments.

In the past year, communication activities towards cardholders were intensified, especially through digital channels, including the promotion of a large number of special actions with points of sale and the sale of cards with special benefits for new users. The activities to optimize the number of users and special programs for selecting and rewarding users, depending on their preferences and spending habits, continued. Special events for cardholders are organized or sponsored, and the main event of the year is the concert of the opera pop trio Il Volo, which PBZ Card organized for its users. The activities to attract new cardholders in the second half of the year were supported by a new creative solution and a campaign that positioned the Premium Visa card as "my Visa for shopping, for every day, home furnishing, travel, entertainment" through a TV spot, print and digital channels. The education of users was also intensified, especially through the "Mouse Trap" quiz, through which, in an entertaining and educational way, the cardholders were advised about the safe use of the card and online purchases.

The offer to the cardholders has been enriched by an increase in the network of sales points with the possibility of instalment payments with the largest number of instalments – up to 36 instalments without interest and fees, which also had a positive effect on cooperation with points of sale. Additionally, the sales network was expanded with a significant number of new partners.

In accordance with the announcement as of 2022 and after the company Nexi Croatia d.o.o. obtained all the necessary authorizations of payment schemes and competent authorities to perform card acquiring operations, on March 1, 2023, a new strategic partnership between PBZ Card and Nexi Croatia in the acquiring segment at points of sale began. The joint approach of Nexi Croatia, a member of the Nexi Group – the leading European PayTech company and PBZ Card, the leading card company in Croatia, a part of the Intesa Sanpaolo Group, one of the leading banking groups in Europe, brought simple, fast and reliable payment solutions to the points of sale, already used by more than two million merchants across Europe.

Bearing in mind the long-term partnership relations, PBZ Card has retained an active role in the new model and continues to be the first point of contact for points of sale, and various sales and marketing activities give additional impetus to their sales achievements. In addition, the cooperation with a leading European PayTech company, such as Nexi, results with the advanced payment solutions to points of sale that will improve their business even more.

Neosjetljivo - Non-sensitive

Business description of the Group (continued)

PBZ Card d.o.o. (continued)

In the new card acquiring model, PBZ Card has remained in charge of concluding contracts on card acquiring and maintaining business relations with merchants, performing these tasks in the name and on behalf of Nexi Croatia. Nexi Croatia, on the other hand, as a new provider of card acquiring services, is focused on the development of products and functionalities of the acquiring network, devices and channels, as well as providing operational support for card acquiring. The new business model was implemented while ensuring continuity in the provision of card acquiring services at the points of sale of contractual partners/merchants, without the need for additional technological adjustments.

Not long after the start of the new strategic partnership, PBZ Card and Nexi Croatia offered the market a modern and innovative PBZ Card SoftPOS application for acquiring via mobile phones and smart devices. The application enables contactless payment with all Visa, Mastercard and Maestro payment cards, as well as through Google Pay and Apple Pay wallets, with the greatest possible security and simplicity. Thanks to sending consumption records via SMS, e-mail, QR code, WhatsApp or Viber, instead of printing them out, the PBZ Card SoftPOS application contributes to the preservation of the environment and operates in accordance with sustainable development. The application brings many other benefits to merchants, such as: refunds, reversals and review of transactions, display of transactions in the application up to three months ago, graphic display of traffic reports, password change, turning on/off biometric authentication for logging into the application, and others. In the second quarter of the year, the contracting of this application began, and marketing and sales activities were intensified, which by the end of the year resulted in a significant number of partners who contracted this application and its installation on numerous mobile devices.

The Company retained its leading position on the domestic market in 2023. According to the latest publicly available data for the 3rd quarter of 2023, taking into account the number of cards, PBZ Group held a share of 30.1% of the total Croatian active card market, including the leading position in the credit card market with a share of 32.5%. The total user turnover achieved by Premium Visa, Visa and Mastercard card products in the first three quarters of 2023 across all channels accounted for 25.3% of the total turnover, while that achieved on POS devices amounted to 32% of the turnover of users of the Croatian card market made in the first three quarters of 2023.

In 2023, a number of activities were carried out to strengthen the reputation of PBZ Card as a socially responsible company. The most significant event in the field of CSR last year was the celebration of the 15th anniversary of the project "Doing Good every Day" and the humanitarian Visa card with a heart. The anniversary was promoted through numerous marketing materials and PR activities and was symbolically rounded off with a festive event that brought together numerous partners of this project. On that occasion, three new donations of a total amount of around EUR 150,000 were presented, in aid of the projects "Heart for children with malignant diseases", "Helping patients with rare diseases" and the project "Helping children, helping the Earth", which the PBZ group supports from 2023. This project, in addition to helping children and young people, is additionally enriched with a new ESG component - environmental care, which is in line with the strong commitment of PBZ Group and Intesa Sanpaolo Group to environmental, social and management aspects of business.

By the end of 2023, the PBZ Group donated around EUR 5 million to the project "Doing Good Every Day" and granted 80 donations, and, last year alone, it promoted a total of twelve donations as a part of this project, thus continuously strengthening and improving the reputation of PBZ a group that stands out for its permanent commitment to helping the community not only on the Croatian market, but also in the wider region.

Neosjetljivo - Non-sensitive

Business description of the Group (continued)

PBZ Leasing d.o.o.

PBZ Leasing d.o.o. is wholly owned by Privredna banka Zagreb. Company was founded in 1991 under the name of "PBZ Stan". In the beginning it dealt with property appraisals and restructuring of the public housing fund. From 1995 until 2004, the company commenced granting car purchase loans by placing funds of Privredna banka Zagreb.

From 2004, leasing has become core business activity of the company. Through finance and operating leases, the Company engaged in financing of real estates, personal and commercial vehicles, vessels, machinery and equipment. In the last year the Company made new leasing placements in amount of EUR 106 million.

By the end of 2023, PBZ Leasing d.o.o. made over 9.1 thousand (2022: 8.3 thousand) lease arrangements with customers, which in financial terms reached EUR 155 million (2022: EUR 132 million).

Intesa Sanpaolo Bank d.d. Bosnia and Herzegovina

Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina was established in Sarajevo in 2000 as UPI bank d.d. Sarajevo. In 2006 the main shareholder became Intesa Sanpaolo Holding S.A Luxembourg, with 94.9% of ownership. In July 2007, UPI banka finished the merger process with LT Gospodarska banka d.d. Sarajevo. In 2008 the Bank changed its name to Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina.

Part of Intesa Sanpaolo Group from Italy, the Bank's majority shareholding was purchased in July 2015 by former sister company Privredna Banka Zagreb, within the framework of an equity investments portfolio reorganization undertaken by the parent group, that during 2017 became 99.9% owner of the Bank.

The Bank maintains its commercial presence on the territory of Bosnia and Herzegovina through its agencies and ATM network and further strengthens its cooperation with merchants and clients with the expansion of POS network. Intesa Sanpaolo Bank d.d. Bosnia and Herzegovina performs general banking business with Retail and Corporate clients offering all ranges of products and commercial services commonly traded in the industry at Bosnia and Herzegovina level.

As of September 2023, Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina is the 6th bank in Bosnia and Herzegovina by Total Assets, present in the country with 38 agencies in the Federation of Bosnia and Herzegovina and 5 agencies in Republika Srpska. Its business operations are mainly concentrated (95% of Total Assets) in Federation of Bosnia and Herzegovina, where the Bank ranks 4th in total assets, loans and deposits, with respective market shares of 9% in Total Assets, 10.1% in loans and 8.4% in Deposits.

Intesa Sanpaolo Bank d.d. Slovenia

Intesa Sanpaolo Bank d.d. Slovenia, formerly known as Banka Koper, was founded in 1955 and is the 4th largest commercial bank in Slovenia in terms of total assets, loans, and deposits. The bank operates through a network of 40 branch offices located in the major Slovenian cities throughout the country.

Throughout the entire period of its existence, Intesa Sanpaolo Bank d.d. Slovenia has grown and contributed to the growth of the economy through its successful operations. The Bank is one of the first banks in Slovenia to have shifted its business to digital platforms.

By renaming to Intesa Sanpaolo Bank d.d. Slovenia and by transferring majority ownership to Privredna banka Zagreb in 2017, the Bank laid the foundations for a further growth and development. The Bank's business strategy aims to revamp the Group's operations in Slovenia by targeting new business areas in retail, wealth management and corporate finance. With the strategy and Business Plan for the period 2022–2025, the Bank pursues the goal of establishing itself as a modern, efficient, and innovative bank in the all-Slovenian territory.

Neosjetljivo - Non-sensitive

Business description of the Group (continued)

PBZ Croatia Osiguranje d.d.

PBZ Croatia Osiguranje d.d. a joint stock company for compulsory pension fund management. The company was incorporated on 26 July 2001 in accordance with changes in Croatian pension legislation and it is a mutual project of both Privredna banka Zagreb and Croatia osiguranje d.d. with ownership in the company of 50% belonging to each shareholder.

The principal activities of PBZ Croatia Osiguranje d.d. include establishing and management of the compulsory pension funds category A, B and C. Following the initial stages of gathering members.

PBZ Croatia Osiguranje d.d. fund category B became one of the three largest compulsory funds in the country. The company's pension funds continued to operate successfully during 2023 and achieve very good results.

At this point, pension funds under management have nearly 474 thousand members and net assets in personal accounts exceeding EUR 3.6 billion, which represents a sound base for the long-term stable and profitable operation of the company.

Overview of activities within the PBZ corporate social responsibility programme

Privredna Banka Zagreb has not prepared the Non-financial statement as required by the Non-Financial Information Legislation availing of the exemption introduced by the local regulation, as being a subsidiary undertaking, which information is included in the Consolidated non-financial statement presented by Intesa Sanpaolo S.p.A

It is a widely known fact that companies and financial institutions no longer have merely economic responsibilities but, as active participants within society, they must also answer for the consequences of their decisions in the social and environmental spheres.

From formalization through the establishment of a responsible organizational unit in 2019, the CSR strategy in PBZ Group in Croatia (Bank, PBZ Card d.o.o., PBZ Leasing d.o.o.) developed from thematic standalone initiatives, through the clustering of CSR activities into dedicated concepts to create synergistic effects and impact strengthening, to expansion and infiltration in all business areas through the implementation of the ESG framework.

CSR plan 2023 contained following streams:
1. Governance model
2. ESG framework implementation
3. PBZ Forest and Environmental initiatives
4. Financial Literacy and Community Support
5. Employee Wellbeing, Development and Corporate Culture

With this chapter, Bank bring closer look and highlight key initiatives and achieved results related to sustainability and CSR, recognizing and confirming the role of PBZ as one of the leaders in the Croatian banking sector that significantly influences the economic and social development of society.

The main material topics presented in following chapter are: (1) Governance model, (2) ESG framework implementation, (3) Environment, (4) Customers, (5) Community and (6) Employees.

Governance framework

Sustainability and long-term perspective are integrated and supported by the Bank's governance framework from which we highlight:

- Code of Ethics,
- Rules on internal reporting violations,
- Diversity and Inclusion Principles,
- Principles of human rights and
- Rules for Combatting Sexual Harassment,

all of which are aligned with regulatory requirements as well as with the governance model of Intesa Sanpaolo as the Parent Company.

The **Code of Ethics** defines the values of PBZ Group and describes the principles of behaviour that derive from them in the context of relations with each stakeholder. Every employee of the Bank and member of the PBZ Group is obliged to become familiar with the Code of Ethics and consistently act according to it in their daily work. The Code describes the values that the PBZ Group believes in and is committed to, setting out the principles of conduct derived from the context of relationships with all stakeholders and, consequently, raising the standards that each person in the organization must maintain to earn the trust of all stakeholders. Code of Ethics was updated at the ISP Group level in 2023, and the adaptation of the local act is underway. The main features introduced by the new version of the Code are following: a reminder of the new corporate mission; an update of the Group's commitments on sustainability issues at an international level; more details on the commitment to avoid any discrimination based on the principle of 'Equity and Inclusion', to combat climate change and to support the transition to a sustainable economy, based on the principle of 'Environmental Protection'; and the strengthening of dissemination and training activities to encourage the adoption of the Code's principles and values.

Neosjetljivo - Non-sensitive

Overview of activities within the PBZ corporate social responsibility programme (continued)

The application of the Code of Ethics requires a consistent interpretation of the principles of conduct in all companies of the PBZ Group. Observed irregularities or violations of the Code of Ethics are reported to the dedicated address Etickikodeks.PBZGrupa@pbz.hr and resolved in accordance with internal procedures. In 2023 there were two grounded reports of non-compliance with the Code of Ethics. Received complaints from third persons were related to (1) priority service in branch for person with disability and (2) employee comment on social network that is not aligned with Diversity and Inclusion Principles. For both reports, corrective measures have been taken with following training activities to strengthen awareness and sensitivity on these topics.

The PBZ Group has a system of **PBZ Rules on internal reporting violations (whistleblowing)** for any violation of the company's internal policies and procedures, for example the Bank's Code of Conduct, the Bank's anti-corruption guidelines, procurement rules, transparency in the promotion and placement of banking and financial products and services, as well as the management of gifts and entertainment expenses, and any behaviour that leads to a conflict of interest due to non-compliance with the rules and control procedures that are provided for such situations - for example, a conflict of interest of an employee due to personal interest. 'Annual report on the proper functioning of the adopted internal reporting violations system for the year 2023' concluded that the system allows to the Bank's employees to report, with absolute confidentiality, facts or behaviours that may constitute an infringement of the rules governing banking activity or any other irregular conduct and that reporting system is compliant with the provisions of the Croatian Informant Protection Act and PBZ rules and acts.

ESG governance model includes strong managerial support that covers nearly all business and support functions within the PBZ Group as well as strong coordination and cross communication with Sustainability Manager and the Sustainable Development office at ISBD level. To ensure that ESG-related processes are managed in compliance with regulatory requirements, management and control of ESG risks, the ESG-specific internal governance structures are, at the PBZ HUB level set out at the following key levels:

- **PBZ Group Environmental Social and Governance (ESG) Committee** - a permanent consultative and decision-making committee of the Bank with the main goal to coordinate and steer ESG related matters and to ensure the correct implementation of the ISBD ESG strategy and respective ISP Group guidelines within the banks of the PBZ Group. ESG Committee is established through adoption of Rules of Procedure of the PBZ Group Environmental Social and Governance Committee (ESG Committee) by the Bank Management Board. The PBZ ESG Manager is the Chairperson of the ESG Committee.
- **PBZ Group ESG Manager** - The ESG Manager is the Management Board member of PBZ Bank (Deputy CEO) responsible to manage, promote and coordinate environmental, social and governance risk topics and initiatives within the Group.
- **PBZ Group Diversity & Inclusion Committee (D&I Committee)** - is a permanent consultative and decision-making committee of the Bank with the main goal to coordinate and steer Diversity and Inclusion ('D&I') related matters and to ensure the correct implementation of the PBZ Group´s Diversity & Inclusion Principles within the banks and companies of the PBZ Group. The D&I Governance model, which the D&I Committee is integral part of, encompasses the SEE HUB. The roles and responsibilities are prescribed in the Rules of procedure of the Management Committees. PBZ CEO is the Chairperson of the D&I Committee.

In July 2022, the ISP issued the Group Guidelines for the Governance of Environmental, Social and Governance (ESG) Risks (last update was in June 2023), focusing primarily on the credit framework and related processes that were acknowledged and in December 2022 **PBZ Group Guidelines on the governance of the Environmental, Social and Governance (ESG) Risks**, have been adopted. Local credit governance framework was further enhanced with new or updated internal policies with built-in sustainability criteria such as 'PBZ Rules for Classification of sustainable credit products and lending transactions', 'Policy for the approval of new products, services and activities aimed at specific target customers of PBZ Group (POG Policy)' and 'PBZ ESG and Reputational Risk Clearing of Credit Transactions'.

Neosjetljivo - Non-sensitive

Overview of activities within the PBZ corporate social responsibility programme (continued)

Specific exposure limits for coal mining and oil & gas sector were defined and monitored on ISP Group level. Specific rules with respect to most significant transactions process for coal & mining sectors and list of controversial counterparties which are subject to MST process are defined by the Parent Company and subsequently locally integrated in PBZ Credit Manual for Corporate Clients. Additionally, PBZ has decided to set ESG internal exposure limits for ESG sensitive industries. This framework is being annually reviewed and monitored for compliance by Risk Management Department.

On September 2022 PBZ acknowledged updated Rules concerning the Equator Principles issued by Intesa Sanpaolo and on Management Board the ISP regulation Group guidelines for the governance of Environmental, social and governance (ESG) risks. Sustainability-related aspects are also integrated in Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and Integrated Internal Control System Regulation (IICSR) procedures.

Furthermore, PBZ commitment toward sustainable goals and Net Zero envisages challenging objectives to reduce GHG emissions both for the Bank's own emissions and those of its loan and investment portfolios. With these goals, KPIs from ESG domain are present in PBZ for few years. In 2023, PBZ defined commercial targets related to ESG products and deals at PBZ Group perimeter that are included in scorecard of CEO and mandatory for all the other scorecards of PBZ managers. ESG KPI's are also integrated into Incentive System for Risk Takers and Middle Managers.

ESG framework implementation

ESG area covers a very wide variety of participants within the Bank, Corporate Bodies and main Corporate Functions such as CSR Office, Risk Management Department, Credit Department, Corporate & SME Division, Retail Division, Planning & Controlling, Data Office, Procurement Office etc. The adopted PBZ Group Guidelines for the Governance of Environmental, Social and Governance (ESG) Risks define the roles and responsibilities of these functions, as well as the reference principles and the macro-process for the governance of such risks. ESG focal point under CSR office is identified to ensure coordinated approach in implementation of ISP Group strategies and methodological ESG framework, while in 2024, the establishment of an ESG Office is envisaged, as direct support to the ESG Manager and the ESG Committee, with coordination responsibilities on ESG matters and projects within the entire organization. Additionally, ESG Competence Center is formed to support ESG topics related to Corporate and SME clients, primarily regarding risk-based transactions.

To ensure proper integration of ESG steps in our everyday business processes, as well as EU taxonomy and other ESG-related regulations alignment, IT infrastructure also needed to be modified and upgraded. With that purpose ESG Data Code project was initiated and currently in progress, strategically aligned with and supports business strategies, realization of ESG KPI's and production of regulatory and managerial reporting on ESG matters.

Regarding regulatory reporting and disclosures, from NFRD perspective, the PBZ Group/Bank does not prepare the Non-financial statement as required by the Non-Financial Information Legislation availing of the introduced exemption, as being a subsidiary undertaking, which information about the PBZ Groups' ESG and CSR governance model and key achievements is included in the Consolidated non-financial statement presented by Intesa Sanpaolo S.p.A. In light of CSRD directive, the same approach is foreseen by the Parent Company, by which the Bank contributes to the preparation of the consolidated statement on level of ISP Group. The Consolidated Non-financial Statement of ISP Group is being drafted in accordance with the GRI Standards defined by the GRI (Global Reporting Initiative) therefore PBZ adheres to the same approach in its part of the contribution. However, in order to provide additional insight to interested stakeholders, the Bank also publishes a voluntary chapter within the Annual Report on activities within the PBZ sustainability and corporate social responsibility program. Additionally, during 2023, PBZ Group started contributing to ISP Group consolidated GAR Reporting process for which first official contribution will occur in first quarter of 2024, with reference date as of 31 December 2023.

Overview of activities within the PBZ corporate social responsibility programme (continued)

Environment and climate change from perspective of Own Emission Plan

The environment due to climate change requires our attention and urgent intervention.

In 2021 Intesa Sanpaolo, parent bank of PBZ, committed to a target of net zero emissions by 2030, for its own emissions and for financed emissions of the portfolio of non-financial companies in the sectors Oil & Gas, Power Generation, Automotive and Coal mining, and joined the Net-Zero Banking Alliance (NZBA), as well as Net Zero Asset Managers Initiative (NZAMI) through Eurizon Capital SGR, Fideuram ISPB Asset Management SGR and Fideuram Asset Management (Ireland), and the Net Zero Asset Owner Initiative (NZAOA) as well as the Net Zero Insurance Alliance (NZIA) through Intesa Sanpaolo Vita, to boost the shared effort to combat climate change.

PBZ contributes to these targets in accordance with the approach of the Parent Bank, defined through 'Rules for the environmental and energy policy' and 'Rules on Green Banking Procurement' and planned within Own Emission Plan from which we present main areas:

Paper consumption

Duplex copying of documents as a standard setting, reusable envelopes and similar activities results in a continuous trend of paper consumption reduction which in 2023 for the perimeter of PBZ Group (Bank, PBZ Card d.o.o., PBZ Leasing d.o.o.) amounted to 273,547 kg, while the use of recycled paper and eco-sustainable paper (paper that is in possession of an eco-label that certifies that the paper is produced either without polluting whitening agents or through sustainable forest management for example FSC, PEFC, ETC / TCF, etc...) is constantly increasing. In total paper consumption (273,547 kg), recycled paper share is 17% (47,745 kg) and eco-sustainable paper share is 82% (224,127 kg).

It is important to point out that out of total paper consumption, 47% (113,273 kg) refers to carbon neutral paper (paper that has no negative impact on the climate and adds no carbon dioxide to the atmosphere).

Energy consumption

In 2023, first rooftop photovoltaic powerplant on the roof of PBZ group head office in Split with estimated 68.7 MWh annual production was built and put in production. Two additional photovoltaic powerplants in Slavonski Brod (estimated 35,6 MWh annual production) and Čakovec (estimated 44.6 MWh annual running) are also constructed and expected to become fully functional in first quater of 2024.

LED technology, air conditioners with inverter technology with a higher degree of energy efficiency, the material and elements of quality insulation properties and ventilation with heat recovery, waste management system are considered standard practise in the Bank. For energy efficiency monitoring, PBZ Group has in place platform for systematic management of energy and energy products. During 2023, PBZ Group in Croatia consumed a total of 10.4 GWh of electric power from renewable sources.

In 2023 the Bank continued with a number of active measures to reduce carbon dioxide emissions. Most prominent initiative is electrification of car fleet that currently counts 143 electric company cars on the level of PBZ Group, and installation of electrical chargers. Transformation of the transport sharing system is visible through 2022 comparison:

- 2% of vehicles meet the Euro 5 standard (compared to 5% in 2022)
- 31% of vehicles meet the Euro 6 standard (compared to 90% in 2022)
- 68% of vehicles are electrical (compared to 5% in 2022)

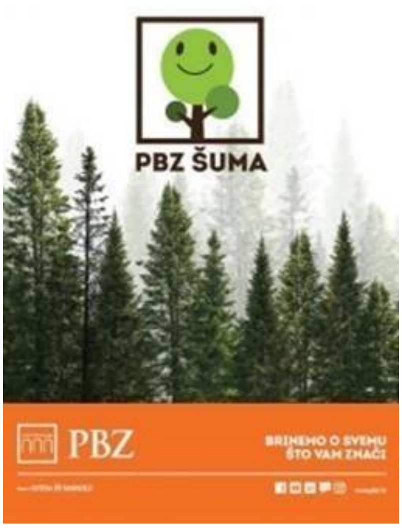
Neosjetljivo - Non-sensitive

Overview of activities within the PBZ corporate social responsibility programme (continued)

Environment and climate change from perspective of Own Emission Plan (continued)

PBZ Forest

PBZ Forest started as a small green story in 2021 which we continued to carry out once a year. In cooperation with Project O2, PBZ reforestation campaign continued for the third year in a row but on the new location – Adica Forest Park (Potkova location) in Vukovar. The drone mapped, flew over and dropped 7,500 self-germinating seed bombs over 30,000 m2, increasing area of PBZ Forest up to 50,000 m2 from the beginning of the initiative. Additionally, we also planted 100 saplings of oak trees in the Adica forest park. It is important to highlight that PBZ Forest, which will contribute to the reduction of greenhouse gases, does not harm the biodiversity of the location since the seeds used in self-germinating packets are exclusively from autochthonous tree species specific to the area being reforested.



For more information about PBZ Forest initiative please visit PBZ corporate website: https://www.pbz.hr/en/gradjani/Nas-svijet/Odrzivi-razvoj/PBZ-suma.html

Additionally, PBZ works continuously on raising awareness and environmental education of its employees through appropriate initiatives on occasions such as Earth hour, World Environment Day, Mobility week and European week for waste reduction.

Along with the aforementioned initiatives, the bank constantly encourages its customers to contribute to sustainability by choosing digital and paperless way of banking.

Customers

Beginning of 2023, PBZ successfully implemented **the introduction of the euro**. As planned, on January 2, PBZ branches were opened in accordance with regular working hours, enabling PBZ clients, individuals and business entities, continuous and unhindered use of all card services and payments, as well as ATM services and PBZ digital banking. Euro introduction produced significant impacts for Croatia and her citizens, and banks played the key role in the introduction process. The importance of this most complex and demanding project for PBZ so far was shown by the Bank's Management Board, which monitored the final executive phase of the euro introduction project from the Bank premises on Euro night and marked the first withdrawal of euro banknotes at PBZ ATMs in the first minutes of the new year 2023.

For Bank’s clients, communication activities and dual display all the important information and prices throughout all available channels continued throughout the year, in line with the Code of Ethics for the introduction of euro, that PBZ is signatory of.

The second emphasis was set on development of **ESG purpose-related products and activities.** During 2022, the initial focus was on redefining the product catalogue and creating new ESG lending products that will bring new values to clients. In 2023, the focus has been redirected to realizing the volume of ESG products and transactions in accordance with the regulatory direction that encourages and strengthens sustainable financing. To be able to monitor the production in a credible and valid way, the criteria and the classification process of sustainable deals and products were established in parallel, implementing the Group’s Rules for the classification of sustainable credit products and lending transactions.

Overview of activities within the PBZ corporate social responsibility programme (continued)

Customers (continued)

PBZ loan products approved as sustainable are following:

Retail (Individuals)			Small Business	
Environmental	**Social**	**Social**	**Environmental**	**Social**
Mortgage loans with collateral A, A+ or B	Non-purpose loans for retired persons	Housing loans with state (APN) subsidy	Model for crediting residential building owners for energy renewal	Model for crediting residential building owners for earthquake renewal
Energo loans	Educa loans	Parental loans		

Raising interest and awareness as well as providing basic information on the ESG topic were the goals of four workshops held by the ESG Competence Center across Croatia that were attended by more than 200 clients.

In addition to restructuring and repositioning the traditional distribution channels of the business network, PBZ continues to develop and improve its direct banking distribution channels making the mobile banking app and internet banking solution more accessible to new customers by abolishing the fees for the first three months of using the service. Leveraging PBZ Digital Banking, the Bank is raising awareness of sustainability through various actions and ISP Group initiatives. Some of the examples are the smart functionality #withPAY in-a-few taps donation possibility for biodiversity preservation as well as the Parent Bank initiative for the International Day of Awareness of Food Loss and Waste, aimed at raising awareness of the importance of sustainable growth and highlighting the dedicated offers and actions to sustain the global effort to reduce the food wasting, enabling customers easy donation opportunity through our mobile app.

During 2023, third focus was set on area of **cybersecurity** with following highlights:

- All phishing campaigns that try to capitalize on the business impersonation of PBZ, were immediately detected with a notice on social media and our official websites and reported to the national CERT
- Every quarter, in collaboration with the Marketing team, campaigns that promote online safety are active. For example, on Black Friday, the focus was on how to properly shop online and what are the best practices to maintain online security.
- The bank has an annual external audit to verify compliance with the current regulations. In 2023 we were confirmed as compliant.
- Key initiatives during 2023 - the Cyber Group Resilience Program (CGRP) program during which we implemented the necessary security solutions defined by ISP to increase the security level of the information system and to achieve further compliance with the security measures of the Parent Company.

These highlighted efforts are recognized and appreciated by the clients as shown in the Retail Benchmarking Customer Satisfaction Survey in which PBZ maintained a stable position relating to Customer Satisfaction Index across main competitors in the market with a score of 77.1/100 (in 2022, PBZ score was 77.8/100).

Overview of activities within the PBZ corporate social responsibility programme (continued)

Community

In local community in which Bank operates, most prominent and recognizable impact is created through donations and **Financial Literacy initiatives**. The reasoning behind the latest derives from PBZ expertise, authenticity and commitment to sustainability that only in 2023 brought together over 2,500 participants.

Responsible financial behaviours are the topic of workshops that PBZ volunteers have been conducting since 2017 for young people and students as part of the Intesa Sanpaolo initiative "The Art of Saving" (Museo del Risparmio). During the long-term engagement of PBZ volunteers in schools, our dedication to youth education and interactive approach through workshops resulted in exceptional interest from schools. In 2023, our volunteers held as many as 57 workshops all over Croatia, providing valuable knowledge and skills to more than 1,100 students. This positive response confirms that we are recognized as strategic partners in the field of financial literacy and indicates the need for continued cooperation and development of new initiatives. In 2023, we participated in the Financial Literacy Week at the Faculty of Economics through lectures, a podcast and the sharing of an informative (non-commercial) brochure on the topic of the household budget and savings. Our previous partners, schools, colleges, Youth Business Camp Adria, Scientific Society of Economists, enabled us to successfully implement various initiatives that had a positive impact on the financial knowledge and awareness of young people.

In order to adapt as much as possible to the needs of young people, we proactively expanded our initiative. In addition to live workshops, for the second year in a row we offer the possibility of online learning through engaging interactive quizzes. In this way, we want to maximally satisfy the needs of young people and provide them with the possibility of education adapted to their preferences and contemporary trends in education. 940 students from 65 classes from 27 cities took part in the PBZnalci quiz, which PBZ conducts in cooperation with the Šibenik Quiz Association. More information is available on https://www.pbz.hr/gradjani/Nas-svijet/Odrzivi-razvoj/Financijska-edukacija.html

Privredna Banka Zagreb, as a signatory of the Charter on Volunteering, encourages its employees to participate in various volunteer actions through which we show concern for the community to which we belong. In addition to PBZ volunteers who spent 114 hours volunteering in schools, in December we organized another activity, family volunteering in homes for the elderly, which expanded the circle of our volunteer activities, giving us the opportunity to create a positive impact on the quality of life of the elderly together with family members. In this campaign, which was carried out in five cities in Croatia, our volunteers together with their family members spent 232 hours volunteering.

Donations represent most visible and impactful activity around community support. The general PBZ donation priorities are to make a tangible social contribution to the community in terms of social inclusion, the environment, culture, education. PBZ Group supports projects and initiatives with a direct local impact developed for the local community and projects that revolve around solidarity, social utility, environmental protection, and the promotion of culture. Bank also supports relationships with universities and schools, initiatives that encourage education and training for young people and their access to the world of work. From annual donation budget of 324 thousand EUR in 2023 on PBZ level, 233 thousand was disbursed and distributed in following manner:

- Arts and Culture, Education and Research (12%)
- Economic development, Emergency relief, Environment, Social welfare (62%)
- Health area (26%)

Overview of activities within the PBZ corporate social responsibility programme (continued)

Community (continued)

Among the community-oriented initiatives, we highlight the ‘Visa-card with a heart’ initiative that supports the **humanitarian project "Doing Good Every Day"**. This year, PBZ Group together with its partners celebrated the fifteenth anniversary of this humanitarian project. With the collected funds, the PBZ group supports the projects of the Ministry of Health and the Ministry of Labour, the pension system, family and social policy for the welfare of children and young people and other people in need. On the occasion of the anniversary, a new project called "Helping children, helping the country" is included in the scope, the goal of which is to equip children's homes with electric vehicles, thus enriching the project with a new ESG component - care for the environment. For overall project, the PBZ Group has so far donated around EUR 5 million and delivered 76 donations to paediatric departments and children's hospitals and homes for children and youth throughout Croatia.

Details of the project and amounts devoted to it are available on the website https://www.cinimdobro.hr/.

Among charitable initiatives, since 2021 PBZ supports also Milky Way virtual humanitarian race organized by UNICEF Croatia. In 2023, PBZ team consisted of 38 colleagues that contributed to joint goal of the race: enabling the program for strengthening the resilience and socio-emotional skills of more than 13,000 primary and secondary school students and more than 450 teachers and other educational experts.

Employees

The most important indicators of PBZ people practices could be provided through the received **Top Employer award 2023** for country/region. Top Employers Institute is the global authority on recognising excellence in people practices and the Top Employer label rewards the best global companies by examining aspects including the organization's HR and career development processes in each of its countries.

Similar recognitions in 2023 that confirmed the quality of PBZ HR practices are the renewal of the Certificate Employer Partner by Selectio, the Family Friendly Employer recognition for the highest quality solutions in achieving a friendly atmosphere towards employees and their families and a balance between business and private life, and -for the first time – **Euromoney Award to PBZ for the best bank in the field of CSR.**

Wellbeing

Activities toward employees are continuously being upgraded. Since 2022 holistic concept of PBZ Family Practices summarizes existing family friendly practices with a series of new initiatives to synergistically strengthen the effect of our activities. The final aim of Family Practice Concept is to create added value to our employees in all life stages and ages through providing organizational, financial and qualitative support and thus fostering a work-private balance.

In 2023 PBZ introduced following new initiatives under this concept, enabling equal benefits for biological, adoptive and foster parents, as well as for mothers and fathers:

- A supportive single payment for the arrival of a child was implemented. This measure represents payments for the birth/adoption/foster of a child in the amount of EUR 1,500 per child. During 2023 a total of 106 employees have used the new measure.
- Upon return from parental leave available for employee parents/adopters/foster parents is introduced the possibility of working part-time with full salary for a period of one month for employees (13 people used this measure) or
- a substitute measure of working in one shift (without working in the afternoon shift and without working on Saturdays and Sundays) up to one year after the first return to work (one person initiated this measure by the end of 2023).

Overview of activities within the PBZ corporate social responsibility programme (continued)

Wellbeing (continued)

New measures were introduced with the aim of enabling easier adaptation for employees after returning to work, adaptation to the environment and re-introduction to work.

Additionally, apart from the day off for parents of first graders introduced previously, since 2023 all employees have a possibility to use a day off for birthday. In order to further support employees that are or will become parents, we have organized workshops on encouraging parenting and initiated PBZ Dad campaign in cooperation with the UNICEF expert team. Furthermore, during 2023 there were numerous activities for employees and their kids, such as competition for children who achieved outstanding results in the sports, art and science categories, first edition of PBZ Kids Week, advent events for the youngest, corporate volunteering in nursing homes, participation in a training activity for children and youth with developmental disabilities etc.

It is important to mention that the core activities of the Family Practices concept continue to take place continuously, such as corporate kindergarten, sport association PBZ Standard with included Multisport offer, periodic health checks and therapies, solidarity aid, discounts for employees with contracted partners, PBZ Retirement club or employee education on personal finance.

In addition, through programs initiated by parent bank, employees had the opportunity to enrol their children in 10-days long ISBD Summer camp or ISBD Sport Junior Event, in which total of almost 130 PBZ children participated.

For employees, also within ISBD perimeter, the ISBD International Healthcare Programme (ISBD IHP) was once more renewed, providing to employees an indefinite-term employment relationship and their family members second medical opinions, medical treatments in top-level health facilities, assistance in the event of serious illnesses, covers treatment and complementary service costs etc.

Diversity and Inclusion

Privredna Banka Zagreb adopted the 'PBZ Group Diversity and Inclusion Principles' to reaffirm and make more effective its commitment to implementing and disseminating policies to include all forms of diversity (gender, gender identity and/or gender expression, sexual orientation, marital status and family status, age, ethnicity, religious belief, political affiliation and affiliation to unions, nationality, language, cultural background, physical and psychological conditions or any other feature of each individual, also including the expression of one's own thought), in accordance with the principles of the Code of Ethics and the Code of Conduct. The key principles at the basis of PBZ Inclusion Policy are respect for all people in their identity and diversity expression, nurturing of everyone's skills and competences, meritocracy and equal opportunities.

Within the D&I strategy most prominent initiative that promotes inclusivity and leads by example in our everyday corporate culture was PBZ Inclusive Manager contest conducted during the European Diversity Month. For the second year in a row, PBZ Inclusive Manager contest raised interest and confirmed recognition of the importance of this topic through total of over 110 nominations.

Special attention is being paid to the empowerment of women which was the purpose of two programs initiated in 2023: Women Leadership Academy and Push UP program.

Women Leadership Program (35 participants) was created to develop and grow pool of women candidates for key levels of management, to enable women leaders to gain a focused personal growth. Within the "PBZ Family Practice" concept, in cooperation with the Association of Croatian Women Entrepreneurs, the first cycle of Push UP workshops for women (100 participants) was held, focusing on well-being, self-confidence, stress coping.

Overview of activities within the PBZ corporate social responsibility programme (continued)

Diversity (nastavak)

Added value achieved for both initiatives were mutual acquaintance, networking, exchange of experiences and support.

Career and Development

Because the education and training of employees and continuous investment in the development of their professional skills are one of the best ways that a company can show them that they are valuable to them, PBZ continuously invests in its resources.

In 2023, 97% of all employees received at least one training, and over 139 thousand training hours were realized.

For the 2023, we highlight the following data:

- The training modules that impact **integrity of corporate conduct** and protection of customers are continuously and consistently implemented. One of the examples are anti-money laundering topics (AML) and corruption and bribery prevention (ABC courses) with realization of 12,160 training hours on PBZ Group level (compared to 17,059 training hours in 2022);
- Continuing attention was given to the ESG topics with the result of 12,156 training hours;
- 17th generation of the "**PBZ Business School**" conducted modules in on-site mode only. In total 40 employees graduated of PBZ Business School – General Program, 1st Business Certificate. Yearly, we have enrolled over 120 participants through two programs: General Management and Operational and Sales Management. Since the beginning in 2007, more than 1.200 employees graduated of one or both programs of the "PBZ Business School'. In 2024 the format of PBZ Business School is in process of being upgraded;
- For the 5th consecutive year, an ongoing training program as a mandatory program and a part of **suitability criteria verification** has been prepared in collaboration with two renowned houses. Supervisory and Management Board, Key functions of the Bank but also all executive managers have had a chance to choose between 15 different strategic and leadership topics. Some of the hard skill topics were: Need for Cross-Functional Collaboration in ESG Implementation, Anti-Money Laundering and Countering the Financing of Terrorism, Application of artificial intelligence in business with deeper analysis in banking (predictive analysis), Regulatory framework and best practices related to operational and digital resilience (DORA) (1/2), Macro risks and opportunities with a focus on the sectoral perspective etc. Soft skill topics were: Leadership Wellbeing, Artificial Intelligence in Banking and Finance, Megatrends and Their Relevance for Banking, Leadership and Strategy Issues etc. In total 95 of our Top Managers were included in this training program participating in their own pace;
- **PBZ Women Leader Academy** has been implemented with the main aim to enable women leaders to gain a focused personal growth and to empower them to demonstrate their vision and to lead the change with outstanding conviction and confidence. The program is created for the PBZ women in management, holding positions in corporate bodies, executive and other managerial positions. We have gathered 35 women leaders and have prepared 3 modules through 2023: (1) Women on Board – Corporate Governance; (2) Bold women leadership – women leadership with impact; (3) Inspire and lead people through powerful storytelling methods;

Overview of activities within the PBZ corporate social responsibility programme (continued)

Career and Development (continued)

- **RISK Academy** - PBZ adopted comprehensive set of policies and rules building Bank´s credit risk culture, core values and expectations regarding credit risk. In order to further strengthen relevant knowledges on policies / rules / regulation (for all staff involved in credit risk-taking, management and monitoring processes) and in order to set-up more enhanced expertise development, we have defined several levels of credit risk education programs. Key goals of education programs to be set in CRO area: Credit culture enhancement; Development of general and specialized knowledge; Continuous following of important regulatory / procedures framework; Soft skills development; Efficient onboarding of new employees; Career development for prospect employees; Higher retention of employees in CRO area; Increased awareness of the need for continuous investment in learning and professional development. The Academy is consisted of two programs: through General program and 5 different topics 273 employees had a chance to improve their knowledge during 204 hours of training, while through Expertise program and 8 different topics 13 employees upgraded their specific knowledge during over 8 hours of training;
- Recognizing that a well-structured onboarding program is the foundation for long-term employee engagement, productivity, and retention, PBZ strategically redesigned the **onboarding process** to align with the evolving needs and expectations of our workforce. All newcomers in PBZ are welcomed the first day with a welcome email and a welcome box on their desk. They are associated with a mentor who provides guidance and coaching for the professional development and with a buddy who offers an immediate onboarding assistance and help integrate new hires into the company culture. Fostering the mentoring culture, 1485 training hours have been invested in mentoring skills and techniques trainings while the revamped onboarding process successfully completed 132 employees, signalling a seamless and positive transition into their roles within the company;
- In 2023 the Off-Site Team Cohesion Program has been established with the goal of enhancing collaboration, strengthening the team connection and overall organizational sense of belonging. Through 47 different and carefully curated activities and interactive sessions, in overall 1541 employees. Participants not only strengthened professional relationships but also gained valuable insights into each other's strengths, contributing to a more cohesive and motivated team. The overwhelmingly positive feedback and observed improvements in team dynamics underscore the program's effectiveness in promoting a collaborative and unified work environment.

Formalization of SmartWork

At the very beginning of 2023, 'the Rules on flexible work modalities' came into force in PBZ Group covering 2,107 employees of which 38% work in office mode, 33% in remote mode, and 29% in smart work mode. These Rules do not currently apply to the branch network since the technical and business preconditions are not met.

In addition to Rules, overall governance model was defined, including alignment with Labour Law Act, annex distribution, implementation of digital individual modality attribute and remote work fee payments. Next level of work was further developed and implemented under SmartUP project. Health and Safety standards are ensured through ongoing home office inspections and IT equipment distribution.

Flexible working modalities emphasized the importance of developing a strong corporate culture. Flexible work enables employees to balance business and personal needs, but also poses challenges in maintaining connection and togetherness. This change in the way of work requires organizations to adapt and actively invest in shaping a culture that supports employees and encourages innovation. Aware of the changes in our daily behaviour and business, as well as the need to strengthen the corporate culture based on the principles of responsibility, inclusiveness, professionalism, engagement, and mutual trust, during 2023 an internal SmartUp communication campaign was conducted.

Overview of activities within the PBZ corporate social responsibility programme (continued)

Formalization of SmartWork (nastavak)

Lastly, standard organizational surveys during last year included SmartUP segment allowing us to listen the voice of employees and their feedback on satisfaction with the concept and its implementation. The initial results are positive and oblige the Bank as an employer to continue with the further development and implementation of the project.

Internal communication

PBZ internal communication platform consists of Intranet with daily updated news, PBZ Espresso-weekly overview of the most important internal news and PBZXpress – monthly newspaper in digital format which we have been publishing continuously for over 16 years.

In 2022, in addition to previous, we implemented new platform called Jenz. The Jenz App is a closed social network for employees aimed at improvement of internal culture through strengthening connection between the colleagues and sense of belonging. Jenz is currently used by 1494 employees. In 2023, 322 official stories and 751 social stories were posted. Colleagues have been exchanged 345 praises, 29,455 likes and 943 comments.

Annual plan of Internal communication, along the campaigns, posts, publications and events includes also periodic surveys, general or focused, to monitor the pulse of people. During July 2023, an Organizational Climate Survey was conducted in which 72% of PBZ Group employees participated, which is the highest redemption rate achieved in this type of survey. General satisfaction rate was 69%, which presents slight decrease in the perception compared to 2021 results (72%).

To further understand the reasoning behind survey results, seven focus groups were conducted at the end of the year throughout Croatia. The obtained key insights from employees will serve as guidelines for further growth and development within work processes as well as in other key segments that are important for employee satisfaction.

Finally, during 2023 sustainability was structurally integrated as regular topic in internal communication with aim to further raise awareness and impact people's everyday behaviour toward sustainable way. In addition to articles, both online education and AWorld application were made available for PBZ Group.

Conclusion

PBZ CSR and sustainability strategic holistic approach toward all stakeholder groups that is being developed and implemented in the last several years created recognizable areas of expertise and resulted in increased visibility, internally from employees as well as externally.

In addition to previously mentioned employer-related recognitions, PBZ received in 2023 for the first time **Euromoney Award for the best bank in the field of CSR** based on commitment to facilitating positive changes in Croatian society, support to numerous humanitarian, social and health institutions, advances in employee-oriented activities in the field of well-being, diversity and inclusion, and the active encouragement of volunteering.

Based on the same principles, PBZ continues its further development and contribution to its stakeholders: employees, the environment, clients, community and Parent Company.

Neosjetljivo - Non-sensitive

Responsibilities of the Management and Supervisory Board for the preparation and approval of the separate and consolidated financial statements, other information and supplementary forms

The Management Board of the Bank is required to prepare separate financial statements of Privredna banka Zagreb and consolidated financial statements of Privredna banka Zagreb Group for each financial year which give a true and fair view of the financial position of the Bank and the Group and of the results of their operations and cash flows, in accordance with International Financial Reporting Standards as adopted by European Union, and is responsible for maintaining proper accounting records to enable the preparation of such separate and consolidated financial statements at any time. It has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and the Group and to prevent and detect fraud and other irregularities.

The Management Board is responsible for selecting suitable accounting policies to conform with applicable accounting standards and then apply them consistently; making 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 and the Group will continue in business.

The Management Board is also responsible for the preparation and content of the Management Board report for the Bank and the Group and the rest of other information (together "other information").

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, 108/2022).

The Management Board is responsible for the submission to the Supervisory Board of its Annual report which includes the separate and consolidated financial statements, other information and supplementary information for acceptance. If the Supervisory Board approves the Annual report it is deemed confirmed by the Management Board and Supervisory Board.

Neosjetljivo - Non-sensitive

Responsibilities of the Management and Supervisory Board for the preparation and approval of the separate and consolidated financial statements, other information and supplementary forms (continued)

The separate and consolidated financial statements on pages 78 to 216 as well as supplementary forms requested by the local regulation and reconciliation of the statutory financial statements with the supplementary forms requested by the local regulation, set out on pages 217 to 265 and Management Board Report for the Bank and the Group on pages 9 to 26, Report from the President of the Supervisory Board on pages 6 to 8 and other information on pages 3 to 5 and 27 to 70 are approved by the Management Board on 13 February 2024 as confirmed by the signatures below.

For and on behalf of Privredna banka Zagreb.

Dinko Lucić

President of the Management Board

Dario Massimo Grassani

Deputy President of the Management Board

Antonio Bergalio

Member of the Management Board

Vedrana Jelušić Kašić

Member of the Management Board

Draženko Kopljar

Member of the Management Board

Andrea Pavlović

Member of the Management Board

Hrvoje Dolak

Member of the Management Board

21 March 2024

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working world

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of PRIVREDNA BANKA ZAGREB – DIONIČKO DRUŠTVO

Report on the audit of the separate and consolidated financial statements

Opinion

We have audited the separate financial statements of PRIVREDNA BANKA ZAGREB – DIONIČKO DRUŠTVO (the Bank), and consolidated financial statements of PRIVREDNA BANKA ZAGREB – DIONIČKO DRUŠTVO and its subsidiaries (together - the Group), which comprise the separate and consolidated statement of financial position as at 31 December 2023, the separate and consolidated income statement and the separate and consolidated statement of other comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Bank and the Group as at 31 December 2023 and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report.

We are independent of the Bank and the Group in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants, including International Independence Standards (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Republic of Croatia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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 separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matters is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.

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Applicable court: Commercial court in Zagreb; Registered share capital is 20.000,00 kuna / 2.654,46 euro, fully paid;
Members of the Board: Berislav Horvat, Ivana Krajinović, Zvonimir Madunić

Building a better working world

Impairment allowances of Loans and advances to customers	
See Note 21 Loans and advances to customers and Note 44 Financial risk management policies	
Impairment allowances on Loans and advances from customers represent management's best estimate of the expected credit losses within the loan portfolios at the reporting date. For defaulted loans that are considered to be individually significant or non-performing corporate exposures exceeding EUR 400 thousand, the impairment assessment is based on the knowledge of each individual debtor and often on estimation of the fair value of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flows analysis. Impairment allowances for retail exposures as well as corporate exposures below EUR 400 thousand individually (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgement are incorporated into the model. The Bank and the Group are continuously recalibrating the model parameters which also requires our increased attention in the audit. Furthermore, allocation of loan exposures in a proper stage depends on Bank's and Group's judgment and assumptions on selection of triggers for identification of significant increase in credit risk of customers. Additionally, uncertain economic outlook resulted in more complex assessment of this effect onto expected credit loss model. This area is determined to be a key audit matter as the determination of the appropriate amount of impairment losses requires the application of significant judgement and use of subjective and complex assumptions by management.	Our work covered impairment of both retail receivables and receivables from corporate counterparties. With the assistance of IT specialists, we assessed the design and tested the operating effectiveness of the controls, including the quality of underlying data and systems. With the assistance of credit risk specialists, we assessed the methodology developed to calculate loan loss provision, concentrating on such aspects as factors for determining a "significant increase in credit risk", allocating loans to stages, appropriateness of models used for calculation of Stage 1, Stage 2 and portion of Stage 3 allowances calculated on models (exposures below EUR 400 thousand) and estimation of key provisioning parameters. We evaluated appropriateness of calculation of probability of default ("PD") and loss given default ("LGD"). Additionally, with respect to models, we understood and assessed how the current macroeconomic expectations are incorporated in the model as part of forward- looking information. We examined a sample of exposures and performed procedures to evaluate the adequacy of classification of exposures in stages (including but not limited to recalculating the creditworthiness of clients, review of input parameters such as the PD, testing correctness of reported days past due, assessing adequacy of watch list status, forbearance status, assessing completeness of information on restructuring and moratoriums). For a selected sample of non-performing loans where impairment allowance is assessed on individual basis, we assessed the models, assumptions and data underlying the impairment identification and quantification including forecasts of future cash flows and valuation of underlying collateral. We also incorporated assessment of the Russia-Ukraine conflict into our procedures. We examined a sample of loan exposures and when performing analysis, we also assessed if their business was affected by Russia-Ukraine conflict and evaluated if there are triggers for significant increase in credit risk ("SICR") or default which may require client reclassification to Stage 2 or Stage 3.

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	For individual Stage 3 assessment we observed how Russia-Ukraine conflict affected specific exposure and whether impact on projections of future cash flows was taken into account. We engaged internal risk modelling specialists to review forward looking information ("FLI") and input parameters used and to assess if current economic outlook was adequately reflected on the PD and the FLI. We also assessed whether the separate and consolidated financial statement disclosures appropriately reflect the Bank's and Group's exposure to credit risk and are compliant with the IFRS as adopted by the EU.

Provision for litigations related to loans originally issued in or indexed to Swiss Franc	
See Note 35 Provisions for liabilities and charges As of 31 December 2023, the Bank and the Group recorded provisions for litigation cases related to loans originally issued or indexed to Swiss Francs ("CHF"). The provision for litigation cases relates to loans that have been converted and to loans that have not been converted and are still denominated in CHF, including requests for nullifying loan agreements in full and requests for nullifying specific clauses of loan agreements. This area is determined to be a key audit matter as there are considerable judgements and estimates in applying the relevant requirements to estimating both timing and size of outflows of economic resources required to settle the Bank's and Group's obligations resulting from these specific litigation claims, given their inherent uncertainty and volume.	Our work included assessment of provisions for claims related to both converted and non-converted loans. We obtained understanding of the process and methodology applied to estimating the provisions for litigation related to loans originally granted in CHF. We assessed the methodology internally developed by the Bank and the Group for the provisioning of the converted and non-converted CHF loans. We obtained a detailed overview of the litigation claims against the Bank and the Group and the analytics of the provisions recognized for these cases. We reconciled this information to the information provided in the financial statements and to the information received from external law firms as part of legal confirmation procedures. We obtained independent overviews and opinions pertaining to the Bank's and Group's litigation cases from the external law firms used by the management and we assessed the amounts of provisions for reasonableness by comparing provisions made with the external law firm's opinions and available information. We tested the calculation of the provisions for mathematical accuracy. We also assessed adequacy of the disclosures in the separate and consolidated financial statements and if these are if these are in line with requirements of IFRS as adopted by the EU.

Other information

Management is responsible for the other information. Other information comprises the Management Report included in the Bank's and Group's Annual Report, but does not include separate and consolidated financial statements and our auditor's report thereon. Our opinion on the separate and consolidated financial statements does not cover the other information.

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In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated 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. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act.

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management Report is consistent, in all material respects, with the enclosed separate and consolidated financial statements; and

2. the enclosed Management Report is prepared in accordance with requirements of Article 21 and 24 of the Accounting Act.

In the light of the knowledge and understanding of the Bank and Group and its environment obtained in the course of the audit of separate and consolidated financial statements, we are also required to report if we have identified material misstatements in the Management Report. We have nothing to report in this respect.

Responsibilities of management and Audit Committee for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Bank's and the Group'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 and the Group or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 ISAs 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 separate and consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the separate and consolidated 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 control.

- 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 and Group's internal control.
- 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 and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated 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 auditor's report. However, future events or conditions may cause the Bank and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Bank on 26 April 2021. Our appointment has been renewed annually by General Assembly of Shareholders, with the most recent reappointment on 27 March 2023, representing a total period of uninterrupted engagement appointment of three years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on 21 March 2024 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Bank and its controlled undertakings within the European Union. In addition, there are no other non-audit services which were provided by us to the Bank and its controlled undertakings and which have not been disclosed in the separate and consolidated financial statements.

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Report on Regulatory requirements

In accordance with the Bylaw on the structure and content of the annual financial statements of credit institutions (National Gazette no 42/18, 122/2020, 119/2021 and 108/2022) (hereinafter "the Bylaw") the Bank's management has prepared forms which are presented on pages 217 to 265, and which contain a separate and consolidated statement of financial position as at 31 December 2023, separate and consolidated income statement, separate and consolidated statement on other comprehensive income, separate and consolidated statement of changes in equity and separate and consolidated cash flow statement for the year then ended together with reconciliation with the separate and consolidated financial statements of the Bank and the Group ("financial information"). This financial information is the responsibility of the Bank's management and is, pursuant to statutory accounting regulation as applicable to banks in Croatia, not a required part of the separate and consolidated financial statements but is required by the Bylaw.

Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited separate and consolidated financial statements. In our opinion based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited separate and consolidated financial statements of the Bank which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU) as presented on pages 78 to 216 and are based on underlying accounting records of the Bank and the Group.

The partner in charge of the audit resulting in this independent auditor's report is Zvonimir Madunić.

Zvonimir Madunić

Member of the Management Board and Certified auditor

22 March 2024

Ernst & Young d.o.o.

Radnička cesta 50

10000 Zagreb

Republic of Croatia

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Neosjetljivo - Non-sensitive

Income statement

For the year ended 31 December

(in EUR million)

	Notes	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Interest income calculated using the effective interest method	6b	657	358	495	267
Other interest income	6b	33	4	14	1
Interest expense	6c	(57)	(26)	(36)	(16)
Net interest income		**633**	**336**	**473**	**252**
Fee and commission income	7a	261	273	157	149
Fee and commission expense	7b	(65)	(60)	(46)	(41)
Net fee and commission income		**196**	**213**	**111**	**108**
Dividend income	8	1	-	32	46
Net trading income and net gains on translation of monetary assets and liabilities		25	34	21	29
Fair value adjustment in hedge accounting	9	1	-	1	-
Other operating income	10	131	12	7	6
Total operating income		**987**	**595**	**645**	**441**
Personnel expenses	11	(163)	(148)	(104)	(97)
Other operating expenses	12	(163)	(154)	(109)	(95)
Net impairment losses on loans and advances to customers	13a	(26)	(15)	(9)	(1)
Other impairment losses and provisions	13b	(19)	(10)	(16)	(2)
Depreciation, amortisation and impairment of goodwill	25,27	(38)	(33)	(27)	(24)
Share of profits from associates	23	1	1	-	-
Profit before income tax		**579**	**236**	**380**	**222**
Income tax expense	14	(107)	(42)	(66)	(32)
Profit for the year		**472**	**194**	**314**	**190**
Attributable to:					
Equity holders of the Bank		437	186	314	190
Non-controlling interests		35	8	-	-
		472	**194**	**314**	**190**

The accompanying accounting policies and notes on pages 88 to 216 are an integral part of these financial statements.

Neosjetljivo - Non-sensitive

Statement of comprehensive income

For the year ended 31 December

				(in EUR million)
		GROUP		**BANK**
	2023	2022	2023	2022
Profit for the year	**472**	**194**	**314**	**190**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Net value adjustment from valuation of property	9	-	*4*	-
Remeasurement of defined benefit liability	-	2	-	-
Related tax	(2)	-	(1)	1
	7	**2**	**3**	**1**
Items that are or may be reclassified to profit or loss				
Net change in fair value on debt instruments	*17*	*(28)*	*12*	*(19)*
Net amount transferred to profit or loss	*(2)*	*4*	-	-
Foreign exchange differences on translation of foreign operations	-	*1*	-	-
Related tax	(2)	3	(2)	3
	13	**(20)**	**10**	**(16)**
Other comprehensive income for the year, net of tax	**20**	**(18)**	**13**	**(15)**
Total comprehensive income for the year, net of tax	**492**	**176**	**327**	**175**
Attributable to:				
Equity holders of the Bank	457	169	327	175
Non-controlling interests	35	7	-	-
	492	**176**	**327**	**175**

The accompanying accounting policies and notes on pages 88 to 216 are an integral part of these financial statements.

Neosjetljivo - Non-sensitive

Statement of financial position

As of 31 December

(in EUR million)

Assets	Notes	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Cash and current accounts with banks	16	2,353	6,194	1,087	5,129
Balances with the Croatian National Bank	17	3,334	395	3,334	395
Financial assets held for trading	18	51	72	51	72
Derivative financial assets	19a,b	52	87	22	39
Fair value changes of the hedged items in portfolio hedge of interest rate risk	19c	(5)	(65)	8	(39)
Loans and advances to banks	20a	1,834	1,012	1,507	739
Loans and advances to customers	21a	11,907	11,141	8,271	7,699
Investment securities	22	1,769	1,640	1,393	1,326
Investments in subsidiaries and associates	23	9	9	245	245
Other assets	24	46	38	25	21
Current tax assets		2	2	-	-
Property and equipment	25	243	234	142	144
Investment property		4	4	3	3
Non-current assets held for sale	26	2	42	1	1
Deferred tax assets	14c	22	24	16	18
Intangible assets	27	64	53	48	38
Total assets		**21,687**	**20,882**	**16,153**	**15,830**

The accompanying accounting policies and notes on pages 88 to 216 are an integral part of these financial statements.

Neosjetljivo - Non-sensitive

Statement of financial position (continued)

As of 31 December

					(in EUR million)
			GROUP		BANK
Liabilities	***Notes***	2023	2022	2023	2022
Current accounts and deposits from banks	28	177	322	149	224
Current accounts and deposits from customers	29	17,258	16,816	12,839	12,679
Derivative financial liabilities	30a,b	33	3	29	1
Interest-bearing borrowings and other financial liabilities	31	653	650	438	434
Senior non-preferred and subordinated debt	32	207	135	135	135
Current tax liability		64	10	32	9
Other liabilities	33	291	246	158	118
Accrued expenses and deferred income	34	54	55	24	22
Provisions	35	105	104	91	89
Deferred tax liabilities	14d	11	10	4	4
Total liabilities		**18,853**	**18,351**	**13,899**	**13,715**
Equity					
Share capital	36a	244	249	244	249
Share premium	36b	208	208	208	208
Other reserves	36d	24	6	18	12
Fair value reserve	36e	(5)	(16)	(6)	(14)
Retained earnings	36f	2,169	1,925	1,790	1,660
Total equity attributable to equity holders of the Bank		**2,640**	**2,372**	**2,254**	**2,115**
Non-controlling interests	36g	194	159	-	-
Total equity		**2,834**	**2,531**	**2,254**	**2,115**
Total liabilities and equity		**21,687**	**20,882**	**16,153**	**15,830**

The accompanying accounting policies and notes on pages 88 to 216 are an integral part of these financial statements.

Neosjetljivo - Non-sensitive

Statement of cash flows

For the year ended 31 December

					(in EUR million)
			GROUP		**BANK**
	Notes	2023	2022	2023	2022
Cash flows from operating activities					
Profit before income tax		579	236	380	222
Net impairment losses on loans and advances to customers	13a	26	15	9	1
Other impairment losses and provisions	13b	19	10	16	2
Depreciation and impairment of goodwill	25,27	38	33	27	24
Net (gains)/losses from securities at fair value through profit or loss		(4)	11	(3)	11
Share of profits from associates	23	(1)	(1)	-	-
Net interest income		(633)	(336)	(473)	(252)
Dividend income	8	(1)	-	(32)	(46)
		23	**(32)**	**(76)**	**(38)**
Decrease/(increase) in operating assets					
Balances with the central banks		(4)	603	-	603
Loans and advances to banks		(500)	(35)	(540)	27
Loans and advances to customers		(1,034)	(685)	(770)	(416)
Financial assets at fair value through profit or loss and FVOCI financial assets and fair value changes of the hedged items in portfolio hedge of interest rate risk		(42)	(23)	14	12
Other assets		171	(66)	(20)	(3)
(Increase)/decrease in operating assets		***(1,409)***	***(206)***	***(1,316)***	***223***

The accompanying accounting policies and notes on pages 88 to 216 are an integral part of these financial statements.

Neosjetljivo - Non-sensitive

Statement of cash flows (continued)

For the year ended 31 December

			(in EUR million)		
			GROUP		BANK
	Notes	2023	2022	2023	2022
Increase/(decrease) in operating liabilities					
Current accounts and deposits from banks		(147)	145	(78)	(34)
Current accounts and deposits from customers		482	2,240	187	1,741
Other liabilities		67	30	57	16
Increase in operating liabilities		***402***	***2,415***	***166***	***1,723***
Interest received		655	315	474	222
Interest paid		(71)	(27)	(49)	(20)
Dividends received		2	2	32	46
Net cash inflow from operating activities before income taxes paid		**(398)**	**2,467**	**(769)**	**2,156**
Income tax paid		(53)	(36)	(43)	(29)
Net cash from operating activities		**(451)**	**2,431**	**(812)**	**2,127**
Cash flows from investing activities					
Purchase of property and equipment, intangible assets and investment property	25, 27	(72)	(50)	(34)	(34)
Disposal of property and equipment, intangible assets and investment property	25, 27	2	12	2	1
Disposal of non-current assets held for sale	10	(119)	2	-	-
Net cash used in investing activities		**(189)**	**(36)**	**(32)**	**(33)**
Cash flows from financing activities					
Dividends paid		(189)	(148)	(189)	(148)
Increase/(decrease) in interest-bearing borrowings and senior non-preferred and subordinated debt		57	(274)	6	(11)
Cash paid for IFRS 16 leases		(17)	(15)	(13)	(12)
Cash acquired on merger of PBZ Stambena Štedionica d.d.		-	-	-	21
Net cash used in financing activities		**(149)**	**(437)**	**(196)**	**(150)**
Net (decrease)/increase in cash and cash equivalents		**(789)**	**1,958**	**(1,040)**	**1,944**
Cash and cash equivalents as at 1 January		7,265	5,308	6,131	4,188
Effect of exchange rate fluctuations on cash held		-	(1)	-	(1)
Cash and cash equivalents as at 31 December	38	**6,476**	**7,265**	**5,091**	**6,131**

The accompanying accounting policies and notes on pages 88 to 216 are an integral part of these financial statements.

Statement of changes in equity

(in EUR million)

Group	Share capital	Share premium	Other re-serves	Fair value-e reserve	Retaine-d earnings	Non-con-trolling inter-est	**Total**
Balance as at 31 December 2022	**249**	**208**	**6**	**(16)**	**1,925**	**159**	**2,531**
Other comprehensive income							
Net change in fair value on debt instrument	-	-	-	16	-	1	**17**
Net amount transferred to the income statement	-	-	-	(1)	-	(1)	**(2)**
Related tax	-	-	-	(2)	-	-	**(2)**
Adjustment of premium on debt securities measured at fair value through other comprehensive income	-	-	-	(2)	2	-	**-**
Revaluation of land and buildings	-	-	9	-	-	-	**9**
Deferred tax on tangible assets	-	-	(2)	-	-	-	**(2)**
Total other comprehensive income	**-**	**-**	**7**	**11**	**2**	**-**	**20**
Profit for the year	-	-	-	-	437	35	**472**
Total comprehensive income for the year	**-**	**-**	**7**	**11**	**439**	**35**	**492**
Dividends paid	-	-	-	-	(189)	-	**(189)**
Sale of land and buildings	-	-	(2)	-	3	-	**1**
Reduction of capital due to conversion to euro	(5)	-	5	-	-	-	**-**
Transfer of retained earnings to legal reserve	-	-	8	-	(8)	-	**-**
Other movements	-	-	-	-	(1)	-	**(1)**
Transactions with owners, recorded directly in equity	**(5)**	**-**	**11**	**-**	**(195)**	**-**	**(189)**
Balance as at 31 December 2023	**244**	**208**	**24**	**(5)**	**2,169**	**194**	**2,834**

The accompanying accounting policies and notes on pages 88 to 216 are an integral part of these financial statements.

Statement of changes in equity (continued)

(in EUR million)

Group	Share capital	Share premium	Treasury share-s	Other reserves	Fair value-e reserve	Retaine-d earn-ings	Non-control-ling in-terest	**Total**
Balance as at 31 December 2021	**253**	**208**	**(37)**	**74**	**-**	**1,854**	**160**	**2,512**
Other comprehensive income								
Net change in fair value on debt instrument	-	-	-	-	(24)	-	(4)	**(28)**
Net amount transferred to the income statement	-	-	-	-	2	-	2	**4**
Related tax	-	-	-	-	3	-	-	**3**
Adjustment of premium on debt securities measured at fair value through other comprehensive income	-	-	-	-	4	(4)	-	**-**
Actuarial gain	-	-	-	1	-	-	1	**2**
Foreign exchange differences on translation of foreign operations	-	-	-	1	-	-	-	**1**
Total other comprehensive income	**-**	**-**	**-**	**2**	**(15)**	**(4)**	**(1)**	**(18)**
Profit for the year	-	-	-	-	-	186	8	**194**
Total comprehensive income for the year	**-**	**-**	**-**	**2**	**(15)**	**182**	**7**	**176**
Dividends paid	-	-	-	-	-	(148)	-	**(148)**
Dividend paid by Intesa Sanpaolo Bank d.d. Slovenia	-	-	-	-	-	-	(8)	**(8)**
Purchase and sale of treasury shares	(4)	-	37	(69)	-	36	-	**-**
Other movements	-	-	-	(1)	(1)	1	-	**(1)**
Transactions with owners, recorded directly in equity	**(4)**	**-**	**37**	**(70)**	**(1)**	**(111)**	**(8)**	**(157)**
Balance as at 31 December 2022	**249**	**208**	**-**	**6**	**(16)**	**1,925**	**159**	**2,531**

The accompanying accounting policies and notes on pages 88 to 216 are an integral part of these financial statements.

Statement of changes in equity (continued)

(in EUR million)

Bank	Share capital	Share premium	Other reserves	Fair value reserve	Retained earnings	**Total**
Balance as at 31 December 2022	**249**	**208**	**12**	**(14)**	**1,660**	**2,115**
Other comprehensive income						
Net change in fair value on debt instrument	-	-	-	12	-	**12**
Related tax	-	-	-	(2)	-	**(2)**
Adjustment of premium on debt securities measured at fair value through other comprehensive income	-	-	-	(2)	2	**-**
Revaluation of land and buildings	-	-	4	-	-	**4**
Deferred tax on tangible assets	-	-	(1)	-	-	**(1)**
Total other comprehensive income	**-**	**-**	**3**	**8**	**2**	**13**
Profit for the year	-	-	-	-	314	**314**
Total comprehensive income for the year	**-**	**-**	**3**	**8**	**316**	**327**
Reduction of capital due to conversion to euro	(5)	**-**	5	**-**	**-**	**-**
Dividends paid	-	-	-	-	(189)	**(189)**
Sale of land and buildings	-	-	(2)	-	3	**1**
Transactions with owners, recorded directly in equity	**(5)**	**-**	**3**	**-**	**(186)**	**(188)**
Balance as at 31 December 2023	**244**	**208**	**18**	**(6)**	**1,790**	**2,254**

The accompanying accounting policies and notes on pages 88 to 216 are an integral part of these financial statements.

Statement of changes in equity (continued)

(in EUR million)

Bank	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	**Total**
Balance as at 31 December 2021	**253**	**208**	**(36)**	**80**	**(1)**	**1,568**	**2,072**
Other comprehensive income							
Net change in fair value on debt instrument	-	-	-	-	(19)	-	**(19)**
Related tax	-	-	-	-	3	-	**3**
Adjustment of premium on debt securities measured at fair value through other comprehensive income	-	-	-	-	4	(4)	**-**
Deferred tax on tangible assets	-	-	-	1	-	-	**1**
Total other comprehensive income	**-**	**-**	**-**	**1**	**(12)**	**(4)**	**(15)**
Profit for the year	-	-	-	-	-	190	**190**
Total comprehensive income for the year	**-**	**-**	**-**	**1**	**(12)**	**186**	**175**
Dividends paid	-	-	-	-	-	(148)	**(148)**
Purchase and sale of treasury shares	(4)	-	36	(69)	-	36	**(1)**
Merger with PBZ Stambena Štedionica d.d. (Note 23)	-	-	-	1	-	17	**18**
Other movements	-	-	-	(1)	(1)	1	**(1)**
Transactions with owners, recorded directly in equity	**(4)**	**-**	**36**	**(69)**	**(1)**	**(94)**	**(132)**
Balance as at 31 December 2022	**249**	**208**	**-**	**12**	**(14)**	**1,660**	**2,115**

The accompanying accounting policies and notes on pages 88 to 216 are an integral part of these financial statements.

Notes to the financial statements

1 Reporting entity

Privredna banka Zagreb is a joint stock company incorporated and domiciled in the Republic of Croatia. The registered office is at Radnička cesta 50, Zagreb. The Bank has been assigned a personal identification number (OIB) 02535697732, and it is registered in the Court Register under registration number 89992917. The Bank is the parent of the Privredna banka Zagreb Group, which has operations in the Republic of Croatia, Bosnia and Herzegovina and Republic of Slovenia. The Group provides a full range of retail and corporate banking services, as well as treasury, investment banking, asset management and leasing services.

These financial statements comprise both the separate and the consolidated financial statements of the Bank as defined in International Accounting Standard 27 *Separate Financial Statements* and International Financial Reporting Standard 10 *Consolidated Financial Statements*.

A summary of the Group's principal accounting policies is set out below.

2 Basis of preparation

a) Basis of accounting

These separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union ("IFRS EU").

These separate and consolidated financial statements were authorised for issue by the Management Board on 13 February 2024 for approval by the Supervisory Board.

b) Basis of measurement

The separate and consolidated financial statements are prepared on the fair value basis for financial assets and liabilities at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and investment property. Owner-occupied property is measured according to revaluation method. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortised or historical cost.

c) Functional and presentation currency

Items included in the Bank's financial statement are expressed in the currency of the primary economic environment in which the Bank operates (functional currency).

Since the Republic of Croatia introduced the euro as the official currency on January 1, 2023 in accordance with the Law on the introduction of the euro as the official currency in the Republic of Croatia, the Bank changed the presentation currency for the purposes of preparing financial statements for the year ended December 31, 2023 from kuna to euros, and the financial statements for the year ended December 31, 2023 were first prepared in euros. From January 1, 2023, the euro is also the functional currency of the Bank (until January 1, 2023 it was kuna).

Although the change in the presentation currency of the financial statements represents a change in accounting policy that requires retroactive application, the Bank did not publish the third balance sheet in the financial statements for the year ended December 31, 2023 in accordance with International Accounting Standard 8 (IAS) Accounting policies, changes in accounting estimates and errors, considering that it has determined that the change in the presentation currency has no significant impact on the Bank's financial statements, due to the stable HRK/EUR exchange rate over the past few years. Therefore, the separate and consolidated financial statements are presented in euros ("EUR") which is presentation currency of the Bank and the Group. Amounts are rounded to the nearest million, unless otherwise stated.

The exchange rates used for translation at 31 December 2023 amounted to CHF 1 = EUR 0.9260, USD 1 = EUR 1.1050 and BAM 1 = EUR 1.95583 (31 December 2022: EUR 1 = HRK 7.5345, CHF 1 = HRK 7.651569, USD 1 = HRK 7.064035 and BAM 1 = HRK 3.852329).

During 2023 and 2022 BAM (official currency of Bosnia and Herzegovina) was pegged with euro at 1 EUR = 1.9558 BAM.

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

2 Basis of preparation (continued)

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS as adopted by EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities and disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period and other comprehensive income. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

Information about judgments made by management in the application of accounting policies that have a significant effect on the financial statements and information about estimates with a significant risk of resulting in a material adjustment in the next financial year are included in Note 4 Material accounting policy information.

e) Legal merger of PBZ Stambena Štedionica d.d.

The structure of the Group was changed following a reorganisation effective from 16 June 2022 whereby PBZ Stambena Štedionica d.d. (100% owned by Privredna banka Zagreb) was legally merged into the Bank and ceased to exist as a separate legal and operational entity. The Bank's income statement for 2022 does not include the results of PBZ Stambena Štedionica d.d. prior to the merger nor has the comparative information been restated to include PBZ Stambena Štedionica d.d.

The assets and liabilities acquired as a result of the merger are recognised at the carrying amounts recognised immediately before the merger in the financial statements of PBZ Stambena Štedionica. The assets, liabilities and equity assumed on the merger are summarised in Note 23 Investments in subsidiaries and associates.

3 Changes in accounting policies

Standards and Interpretations effective in the current period

The following new standards and amendments to the existing standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee and adopted by the EU are effective for the current period:

- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2, (effective date for annual periods beginning on or after 1 January 2023).
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 (effective date for annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information, issued on 9 December 2021 (effective date for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates, issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023.
- IFRS 17 Insurance contracts, issued on 18 May 2017; including Amendments to IFRS 17 issued on 25 June 2020, (effective date for annual periods beginning on or after 1 January 2023).

The adoption of these Standards and Interpretations had no significant impact on the financial statements of the Bank and the Group. The amendments of IAS 1 and IFRS Practice Statement 2 have had an impact on the Bank's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Bank's financial statements.

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

3 Changes in accounting policies (continued)

International tax reform – Pillar Two legislation

The Global Minimum Tax rules ("Global Minimum Tax") have been introduced in the European Union by way of the EU Council Directive 2523/2022 published into the EU Official Gazette on 22 December 2022. After the relevant implementation in the EU domestic legislations, such provisions shall apply as of the 2024 tax period. As far as Republic of Croatia is concerned, the provisions of the EU Council Directive 2523/2022 have been implemented through Minimal Global Corporate Tax Act.

The Global Minimum Tax provisions apply to the entities which are members of the Intesa Sanpaolo Group, due to the fact that the latter has exceeded the euro 750 million annual revenue threshold for at least two of the four fiscal years preceding the year 2024. More in detail, this implies the need to verify that the minimum effective taxation calculated in each of the jurisdictions where the Intesa Sanpaolo Group operates is not lower than the 15% threshold. Such test depends upon many elements, also inter-connected among them, e.g., firstly the taxable income realized therein, the nominal tax rate and the tax rules to be used for the determination of the taxable income.

Due to the level of innovation and the complexity related to the calculation of the effective taxation level, the Global Minimum Tax provisions allow to use a simplified calculation method for the first fiscal years of application of the provisions (periods which – in any case – cannot end after 30 June 2028). This calculation method, only applicable to the entities acting in jurisdictions which pass at least one the three tests provided for by the OECD provisions (so-called transitional safe harbor), allows to reduce the compliance duties and to annul the Global Minimum Tax.

Taking into account the information available or reasonably estimated as of 31 December 2023 and the still existing interpretation uncertainties, the Global Minimum Tax exposure of the Intesa Sanpaolo Group, also considering the transitional safe harbors, has to be considered as "not material". Furthermore, due to the fact that at the end of the financial year 2023 the law provisions were not effective in any of the countries in which the Intesa Sanpaolo Group operates, the Group has not accounted either for current taxes or for deferred taxes related to the Global Minimum Tax.

The Intesa Sanpaolo Group is organizing and preparing itself for the duties connected with the Global Minimum Tax by way of a specific project aimed at arranging appropriate procedures and at implementing applicative and organizational areas of intervention needed for an organic and effective adoption of the rules within the Group as a whole and in any of the group entities. On the basis of the outcome arisen during the project and based on information assessable as of 31 December 2023, no impact from the introduction of the Global Minimum Tax is expected for the Bank and the Group.

Standards and Interpretations issued by International Accounting Standards Committee but not yet effective in EU

The Group and the Bank do not anticipate that the adoption of new and amended Standards and Interpretations that are issued but not yet effective will have a significant impact on the financial statements of the Group and the Bank.

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

4 Material accounting policy information

a) Basis of consolidation

i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Business combinations under common control are accounted for based on carrying values, with any effects directly recognised in equity.

ii) Non-controlling interests

Non-controlling interests in the net assets (excluding goodwill) of the consolidated subsidiaries are identified separately from the Group's equity therein. For each business combination, the Group elects to measure any non-controlling interests in the acquiree either at fair value or at their proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

iii) Subsidiaries

Financial statements are prepared for the Bank and the Group, Financial statements of the Group include consolidated financial statements of the Bank and its entities under control (subsidiaries). In the Bank's separate financial statements, investments in subsidiaries are accounted for at cost less impairment.

iv) Associates

The Group's share of its associates" post-acquisition gains or losses is recognised in the income statement and its share of their post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

Dividends received from associates are treated as a decrease of investment in the associate in the Group's consolidated statement of financial position and as dividend income in the Bank's unconsolidated income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

v) Acquisition of entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that ultimately controls the Group are accounted for using book value accounting at the date of acquisition. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the financial statements of the acquired entities. The components of equity of the acquired entities are added to the same components within Group equity except for issued capital.

Consolidated financial statements reflect the results of combining entities for all periods presented for which the entities were under the transferor's common control, irrespective of when the combination takes place.

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

4 Material accounting policy information (continued)

a) Basis of consolidation (continued)

vi) Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

vii) Fund management

The Group manages and administers assets held in mutual funds on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity (during the reporting period). Information about the Group's fund management activities is set out in Note 39 Managed funds for and on behalf of third parties.

b) Foreign currency

i) Foreign currency translation

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the mid-market exchange rate of the Croatian National Bank. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date on which the fair value was determined.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognised in the income statement, except for differences arising on the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI, which are recognised in other comprehensive income.

Changes in the fair value of debt securities denominated in foreign currency classified as financial instruments measured at FVOCI are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences on financial instruments measured at FVOCI are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary securities denominated in foreign currency classified as financial instruments measured at FVOCI are recognised directly in other comprehensive income along with other changes, net of deferred tax. The Group does not have qualifying cash flow hedges and qualifying net investment hedges as defined in International Accounting Standard 39 Financial Instruments: Measurement and Recognition ("IAS 39") and International Financial Reporting Standard 9 Financial Instruments ("IFRS 9").

ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interest.

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

4 Material accounting policy information (continued)

c) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability,

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost and interest expense on lease liabilities.

d) Fee and commission income and expense

Loan commitment fees for loans and advances that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities that are not likely to be drawn down are recognised over the term of the commitment. Fee and commission income and expense mainly comprise fees and commissions related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and asset management, and are recognised in the income statement upon performance of the relevant service, unless they have been included in the effective interest calculation.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part for itself or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment fund management are recognised on an accrual basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

e) Net trading income and net gains and losses on translation of monetary assets and liabilities

Net trading income and net gains and losses on translation of monetary assets and liabilities include spreads earned from foreign exchange spot trading, trading income from forward and swap contracts, realised and unrealised gains on securities at fair value through profit or loss and net gains and losses from the translation of monetary assets and liabilities denominated in foreign currency and non-trading assets mandatorily measured at FVTPL.

f) Other operating income

Other operating income includes net gains on disposal of securities classified as financial instruments measured at FVOCI, net gains on disposal of property and equipment, rental income from investment property and assets under operating lease and other income.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognised on a straight-line basis over the lease term.

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

4 Material accounting policy information (continued)

g) Employee benefits

Employee entitlements to annual leave are recognised when they accrue. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

i) Personnel social contributions

According to local legislation, the Croatian entities of the Group are obliged to pay contributions to the Pension Fund and the State Health Care Fund. This obligation relates to full-time employees and provides for paying contributions in the amount of certain percentages determined on the basis of gross salary which are in the Republic of Croatia as follows:

	2023	**2022**
Contributions to the Pension Fund	20.00%	20.00%
Contributions to the State Health Care Fund	16.50%	16.50%

The Group is also obliged to withhold contributions from the gross salary on behalf of the employee for the same funds. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefits in the income statement as they accrue.

ii) Termination benefits

Termination benefits are recognised as an expense when the Group 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 Group 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.

iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

iv) Share-based payment transactions

The Group has a share-based payment agreement which entitle the key employees to receive the cash payment, based on the price of the equity instrument (cash-settled transactions). The liability is initially measured by reference to the fair value of equity instruments at the grant date and re-measured until settlement. The fair value is determined as the market value of shares. The cost of cash-settled transactions is recognised over the period in which the performance and/or service conditions are fulfilled.

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

4 Material accounting policy information (continued)

g) Employee benefits (continued)

v) Retirement benefit obligation

Valuations of these obligations are carried out by independent qualified actuaries, by using the book reserve method.

The Group's obligation for the current service cost of providing pension benefits and the increment in the present value of the defined benefit obligation due to the approaching beginning of the defined benefit liability (interest cost) was assessed. The increase in the benefit scheme liabilities in excess of the above two assessments is recognised as the actuarial gain or loss. The defined benefit scheme liabilities are measured on an actuarial basis using the projected unit credit method, which measures actuarial liabilities in accordance with the expected wage/salary increase from the valuation date until the foreseen retirement of the employed person.

h) Dividend income

Dividend income on equity securities is credited to the income statement when the right to receive the dividend is established except for dividend income from associates which is on consolidation credited to the carrying values of investments in associates in the Group's statement of financial position.

i) Income tax

The income tax expense 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 other comprehensive income, in which case it is recognised in other comprehensive income.

i) Current income tax

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainties related to income taxes, if any.

ii) Deferred income tax

Deferred taxes are calculated by using the balance sheet liability method.

At each reporting date, the Group reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

j) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with original maturity of less than 90 days, including cash and current accounts with banks and loans and advances to banks up to 90 days.

k) Financial instruments

i) Recognition

The Group initially recognises loans and advances and other financial liabilities on the date at which they are originated, i.e. advanced to borrowers or received from lenders.

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

4 Material accounting policy information (continued)

k) Financial instruments (continued)

i) Recognition (continued)

Regular way transactions with financial instruments are recognised at the date when they are transferred (settlement date). Under settlement date accounting, while the underlying asset or liability is not recognised until the settlement date, changes in fair value of the underlying asset or liability are recognised starting from the trade date. All other financial assets and liabilities (derivatives) are recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

ii) Classification

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice.
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

Notes to the financial statements (continued)

4 Material accounting policy information (continued)

k) Financial instruments (continued)

ii) Classification (continued)

In assessing whether the contractual cash flows are SPPI, the Group 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 it would not meet this condition. In making the assessment, the Group considers a:

- contingent events that would change the amount and timing of cash flows;
- prepayment and extension terms; and
- features that modify consideration of the time value of money (e.g., periodical reset of interest rates).

Loans and advances

"Loans and advances" captions in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

- loans and advances mandatorily measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables.

Investment securities

The "investment securities" caption in the statement of financial position includes:

- debt investment securities measured at amortised cost;
- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in 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.

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 OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

iii) Derecognition

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in ii). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

Realised gains and losses from the disposal of financial instruments are calculated using the weighted average cost method.

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

4 Material accounting policy information (continued)

k) Financial instruments (continued)

iv) Modifications of financial assets and liabilities

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see (xi)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method (see (c)).

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

4 Material accounting policy information (continued)

k) Financial instruments (continued)

v) Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

vi) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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 regulations, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

vii) Gains and losses

Gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss as well as all related realised gains and losses arising upon a sale or other derecognition of such assets and liabilities are recognised in the income statement item *Net trading gains and losses and net gains and losses on translation of monetary assets and liabilities.* Gains and losses from a change in the fair value of financial instruments measured at FVOCI are recognised directly in a Fair value reserve in other comprehensive income, net of deferred tax, and are disclosed in the statement of changes in equity. Loss allowances, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on financial instruments measured at FVOCI monetary assets are recognised in the income statement. Loss allowances on non-monetary financial instruments measured at FVOCI assets are also recognised in the income statement (*Impairment gains and losses and provisions*), Foreign exchange differences on non-monetary financial instruments measured at FVOCI are recognised in other comprehensive income as Fair value reserve, net of deferred tax. Dividend income is recognised in the income statement. Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in the income statement, when a financial instrument is derecognised or when its value is impaired (*Impairment gains and losses and provisions*).

viii) Impairment of financial assets

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments and financial assets at FVTPL.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

4 Material accounting policy information (continued)

k) Financial instruments (continued)

viii) Impairment of financial assets (continued)

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured 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.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other 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)

4 Material accounting policy information (continued)

k) Financial instruments (continued)

viii) Impairment of financial assets (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision,
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component.
- debt instruments measured at 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 Group 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 Group's procedures for recovery of amounts due.

l) Derivative financial assets

All derivatives are measured at fair value in the statement of financial position. If a derivative is not held for trading, and is not designated in a qualifying hedging relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

m) Hedge accounting

The Group uses derivative financial instruments to manage its exposures to interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which they are entered to and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged items fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are tested regularly throughout their life to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated. The Group uses fair value hedge to cover exposure to changes in the fair value attributable to the different risk categories of assets and liabilities in the statement of financial position, or a portion of these or to cover portfolios of financial assets and liabilities.

Notes to the financial statements (continued)

4 Material accounting policy information (continued)

n) Sale and repurchase agreements

The Group enters into purchases and sales of securities under agreements to resell or repurchase substantially identical securities 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 and advances to either banks or customers. The receivables are presented as collateralised by the underlying security. 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 the securities 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.

o) Leases

At inception of a contract, the Group 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.

Group as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

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.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date.

With regard to the discount rate, based on the requirements of IFRS 16, the Group uses the implicit interest rate for each lease contract, when it is available. The implicit interest rate cannot always be readily determined without using estimates and assumptions. In these cases, the Group has developed a methodology for setting the incremental interest rate as an alternative to the implicit interest rate and has decided to adopt the Funds Transfer Pricing (FTP) method. This is based on an unsecured and amortising rate curve, which envisages lease payments for the lease contract that are typically constant over the lease term, rather than a single payment upon maturity. The FTP method takes into account the creditworthiness of the lessee, the term of the lease, the nature and quality of the collateral provided and the economic environment in which the transaction takes place and is therefore in line with the requirements of the standard.

The Group presents right-of-use assets in “property and equipment” and lease liabilities in “interest bearing borrowings in the statement of financial position.

Short term leases and leases of low-value assets

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

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Notes to the financial statements (continued)

4 Material accounting policy information (continued)

o) Leases (continued)

Group as lessor

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

p) Property and equipment

Property and equipment are stated at historical cost or deemed cost less accumulated depreciation and impairment losses, except for owner-occupied property which have been measured according to the revaluation method. The fair value of land and buildings is measured on the basis of market benchmarks, in an appraisal that is normally prepared by professionally qualified appraisers. The frequency of revaluations depends upon the changes in fair value of items of property being revalued.

Property and equipment are tangible items that are held for use in the provision of services, for rental or other administrative purposes.

Subsequent cost is included in the asset's carrying amount or is recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the period in which they have incurred.

Assets not yet brought into use are not depreciated until the relevant assets are completed and put into operational use and reclassified to the appropriate category of property and equipment.

Depreciation is provided on all assets except land and assets not yet brought into use on a straight-line basis at prescribed rates designed to write-off the cost over the estimated useful life of the asset. The estimated useful lives are as follows:

	2023	**2022**
Buildings	10 to 40 years	10 to 40 years
Office furniture	5 years	5 years
Computers	4 to 6 years	4 to 6 years
Motor vehicles	5 years	5 years
Equipment and other assets	2 to 10 years	2 to 10 years

The assets residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date. When an item of property is revalued, the carrying value of that asset is adjusted to the revalued amount so that the accumulated depreciation is eliminated against the gross carrying amount of the asset.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

When the use of property changes from owner-occupied to rented, the property is reclassified to investment property. When assets are sold or retired, their cost and accumulated depreciation are eliminated and any gain or loss resulting from their disposal is included in the income statement.

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Notes to the financial statements (continued)

4 Material accounting policy information (continued)

q) Intangible assets

Intangible assets

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

	2023	2022
Licence fees	1-10 years	7 years
Computer software	1-10 years	7 years

The useful lives, residual values and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

r) Issued share capital

Issued share capital represents the nominal value of paid-in ordinary shares and is denominated in EUR.

Dividends are recognised as a liability in the period in which they are declared.

s) Retained earnings

Any profit for the year retained after appropriations is classified within retained earnings.

t) Off-balance-sheet commitments and contingent liabilities

In the ordinary course of business, the Group 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 Group's statement of financial position if and when they become payable.

Financial guarantees are contracts that require the Group 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.

u) Managed funds for and on behalf of third parties

The Group manages funds for and on behalf of corporate and retail customers, banks and other institutions. These amounts do not represent the Group's assets and are excluded from the statement of financial position. For the services rendered the Group charges a fee. For details please refer to Note 39 Managed funds for and on behalf of third parties.

Notes to the financial statements (continued)

5 Accounting estimates and judgments in applying accounting policies

The Group 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. Critical judgments relating to allowance for credit losses are particularly complex in the current uncertain environment. During 2023, the management monitored the geopolitical and economic situation caused by Russia-Ukraine conflict. This event caused slowdown in economic activities and uncertainties to macroeconomic projections, which negatively affected the fair value of financial instruments, and future developments may affect the quality of loan portfolio and real estate market. Although the accounting estimates and assumptions were made using reasonable and achievable information as of 31 December 2023, they are subject to changes that are not possible to predict at the moment.

The estimation of allowance for credit losses represents management's best estimate of risk of default and ECLs on the financial assets, including any off-balance sheet exposures, at the reporting date and, as part of this, the estimation of the fair value of real estate collateral represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

These disclosures supplement the commentary on fair values of financial assets and liabilities (Note 43 Fair values of financial assets and liabilities) and financial risk management (Note 44 Financial risk management policies).

a) 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. Refer to 4 k ii) for details on the Bank's business models. 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

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 Group 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.

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Notes to the financial statements (continued)

5 Accounting estimates and judgments in applying accounting policies (continued)

b) Impairment of financial assets

Significant Increase in Credit Risk

Criteria for assessing significant increase in credit risk for retail exposures are defined at the appropriate portfolio level and vary based on the exposure's credit risk at origination. The criteria include changes in internal credit risk rating, forbearance measures and delinquency backstop when contractual payments are materially more than 30 days past due. Additional criteria that are used for identification of significant increase in credit risk are based on internal assessment (internal watch list) and applied forbearance measures. Credit risk has increased significantly since initial recognition when one of the criteria is met.

Measurement of Expected Credit Loss

Significant Increase in Credit Risk for corporate exposures is determined based on internal credit risk rating which is assessed at individual borrower basis using sector-specific credit risk models that are based on historical data. Current and forward-looking information that is specific to the borrower, industry, and sector is considered based on expert credit judgment. Criteria for assessing significant increase in credit risk are defined at the appropriate segmentation level and vary based on the internal credit risk rating of the exposure at origination. Criteria include relative changes in internal credit risk rating and delinquency backstop when contractual payments are more than 30 days past due. Credit risk has increased significantly since initial recognition when one of the criteria is met.

Expected credit losses are calculated as the product of PD, loss given default (LGD), and exposure at default (EAD) over the remaining expected life of the financial asset and discounted to the reporting date at the effective interest rate for exposures with significant increase in credit risk (i.e. stage 2 contracts). On the other hand, for exposures classified as stage 1, expected credit loss is calculated over 1 year horizon, i.e. 1 year expected credit loss is estimated. PD estimates represent the point-in-time PD, updated on a yearly basis based on the group's historical experience, current conditions, and relevant forward-looking expectations. LGD estimates are determined based on historical recovery payments. EAD incorporates forward-looking expectations about repayments of drawn balances and expectations about future draws where applicable.

The Group first assesses whether evidence of impairment exists individually for assets that are individually significant, corporate exposures with total balance exceeding EUR 0.5 million, (2022: corporate exposure with total balance exceeding EUR 0.5 million) and collectively for assets that are not individually significant (retail exposures and corporate exposures below threshold of EUR 0.5 million).

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.

Forward-Looking Information

In calculating the ECL, the Group employs internally developed models that utilize parameters for PD, LGD, and EAD. Forward-looking macroeconomic factors determined at the regional level are incorporated in the risk parameters as relevant. Additional risk factors that are segment specific are also incorporated, where relevant. The measurement of the financial assets also reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs.

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Notes to the financial statements (continued)

5 Accounting estimates and judgments in applying accounting policies (continued)

b) Impairment of financial assets (continued)

Forward-Looking Information (continued)

In terms of method, various possible alternative approaches designed to take account of these elements have been analysed. Of the various alternatives considered, the Group has decided to adopt the "Most likely scenario+ Add-on" approach. According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario ("Most Likely") and then corrected with an Add-On to include any differences compared to downside and upside scenarios.

Expected Credit Losses

ECLs are recognized on initial recognition of the financial assets. Allowance for credit losses represents management's best estimate of risk of default and ECLs on the financial assets, including any off-balance sheet exposures, at the reporting date.

Management's judgment is used to determine the point within the range that is the best estimate for the qualitative component contributing to ECLs, based on an assessment of business and economic conditions, historical loss experience, loan portfolio composition, and other relevant indicators and forward-looking information. Management applies judgement to ensure that the estimate of loss arrived at on the basis of historical information is appropriately adjusted to reflect the current economic conditions. Loss rates are regularly benchmarked against actual loss experience. Changes in these assumptions would have a direct impact on the provision for credit losses and may result in a change in the allowance for credit losses.

c) Classification of lease contracts

The Group acts as a lessor in operating and finance leases. Where the Group, as a lessor, transfers substantially all the risks and rewards incidental to ownership to the lessee, the leases are classified as finance leases. All other leases are classified as operating and related assets are included in property and equipment under operating leases at cost net of accumulated depreciation. In determining whether leases should be classified as operating or finance, the Group considers the requirements of International Financial Reporting Standard 16 *Leases*.

d) Fair value of financial instruments

If a market for a financial instrument is not active, or, if for any reason, fair value cannot be reasonably measured by market price, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent to the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data. The chosen valuation techniques are periodically reviewed by an independent expert who has not participated in their formation. All models are certified before use.

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

5 Accounting estimates and judgments in applying accounting policies (continued)

e) Taxation

The Group provides for tax liabilities in accordance with the tax laws of the Republic of Croatia and other jurisdictions (Slovenia and Bosnia and Herzegovina). Tax returns are subject to the approval of the tax authorities who are entitled to carry out subsequent inspections of taxpayers" records. Deferred tax assets are recognised only when it is probable that sufficient taxable profit will be available in future periods against which deductible temporary differences may be utilized.

f) Litigation and claims

The Group makes an individual assessment of all court cases. The assessment is made by the Legal Department of the Bank or its relevant subsidiaries and in certain cases external lawyers are engaged. As stated in Note 35 Provisions the Group and the Bank provided EUR 105 million (2022: EUR 104 million) and EUR 91 million (2022: EUR 89 million) respectively for principal and interest in respect of liabilities for court cases, which the management estimates as sufficient. The above amounts represent the Group's best estimate of loss in respect of legal cases, although the actual outcome of court cases initiated against the Group can be significantly different. It is not practicable for management to estimate the financial impact of changes to the assumptions based on which management assesses the need for provisions.

g) Fair value of property and equipment and investment property

The Group uses the revaluation model for property and equipment and fair value model. The criterion of revaluation model requires that the asset have to be amortized on the basis of new revalued value. Investment property at fair value will no longer be amortized.

h) Foreclosed assets

The Group occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the gross carrying value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal are recognised in the income statement.

i) Determination of control over investees

Management applies its judgement to determine whether the Group controls investees. In assessing whether the Group controls the investees, the Group performs the power analysis and takes into consideration purpose and design of the investee, the evidence of practical ability to direct the relevant activities of the investees etc.

As a result, the Group concluded that it does not control and therefore should not consolidate its special purpose vehicles and entities with receivables in default, as the Group does not have power over the relevant activities of those entities.

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

6 Net interest income

a) Interest income – analysis by source

(in EUR million)

	GROUP		BANK	
	2023	2022	2023	2022
Retail	235	227	170	174
Banks	213	12	167	8
Corporate	154	91	92	58
Public sector and other institutions	88	32	80	28
	690	**362**	**509**	**268**

b) Interest income – analysis by financial assets category

(in EUR million)

	GROUP		BANK	
	2023	2022	2023	2022
Loans and advances to customers	435	334	317	251
Loans and advances to banks	194	16	155	10
Investment securities at FVOCI	25	4	20	2
Investment securities at amortized cost	3	4	3	4
Total interest income calculated using the effective interest rate	**657**	**358**	**495**	**267**
Total other interest income	33	4	14	1
	690	**362**	**509**	**268**

Interest income includes collected interest income from credit impaired loans of the Group of EUR 13 million (2022 impaired: EUR 16 million) and of the Bank of EUR 9 million (2022 impaired: EUR 13 million).

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

6 Net interest income (continued)

c) Interest expense – analysis by recipient

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Banks	20	15	12	9
Corporate	19	2	12	2
Retail	12	7	7	4
Public sector and other institutions	6	2	5	1
	57	**26**	**36**	**16**

d) Interest expense – analysis by product

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Interest-bearing borrowings and other financial liabilities	22	10	9	5
Current accounts and deposits from corporate customers and public sector	18	2	16	2
Current accounts and deposits from retail customers	12	7	7	4
Current accounts and deposits from banks	4	6	3	4
Interest expense on lease liability	1	1	1	1
	57	**26**	**36**	**16**

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

7 Net fee and commission income

a) Fee and commission income

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Card business	106	124	47	43
Payment transactions	79	80	65	64
Customer services	41	36	24	24
Customer loans	10	10	6	3
Investment management, brokerage and consultancy	10	7	9	7
Guarantees	7	7	4	5
Other	8	9	2	3
	261	**273**	**157**	**149**

b) Fee and commission expense

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Cards business	50	46	35	32
Payment transactions	7	7	5	5
Bank charges	4	3	4	2
Other	4	4	2	2
	65	**60**	**46**	**41**

8 Dividend income

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Dividends from subsidiaries	-	-	31	45
Dividends from associates	1	-	1	1
	1	**-**	**32**	**46**

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

9 Fair value adjustments in hedge accounting

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Net effect on derivatives used as hedging instruments	(67)	95	(46)	39
Net effect on hedged items	68	(95)	47	(39)
	1	**-**	**1**	**-**

10 Other operating income

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Gain on sale of acquiring business	119	-	-	-
Gain on disposal of non-current assets held for sale	-	2	-	-
Other income	12	10	7	6
	131	**12**	**7**	**6**

For more information on gain on sale of acquiring business please refer to Note 26 Non-current assets held for sale. Other income includes income from refunded expenses, income from collection services provided to subsidiaries and income from partner ATMs.

Notes to the financial statements (continued)

11 Personnel expenses

(in EUR million)

	GROUP		BANK	
	2023	2022	2023	2022
Net salaries	85	76	53	48
Contributions for pension insurance	22	20	15	13
Contributions for health insurance	16	15	12	11
Taxes and surtaxes	14	12	9	8
Other personnel expenses	26	25	15	17
	163	**148**	**104**	**97**

During the year the average number of employees within the Group based on full-time employment equivalence was 4,793 (2022: 4,664) of which the Bank accounted for 3,222 (2022: 3,105) employees.

12 Other operating expenses

(in EUR million)

	GROUP		BANK	
	2023	2022	2023	2022
Materials and services	83	78	67	60
Processing expenses	18	25	10	9
Deposit insurance premium and ex-ante resolution contributions	17	15	12	10
Indirect and other taxes	5	4	4	4
Supervision expenses	5	3	4	2
Other expenses	35	29	12	10
	163	**154**	**109**	**95**

Other operating expenses include fees payable to the auditor of EUR 1.3 million for the Group (2022: EUR 1,2 million) and EUR 0.9 million for the Bank (2022: EUR 0.9 million).

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

13 Impairment losses

a) Net impairment losses on loans and advances to customers

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Impairment losses on loans and advances to customers at amortised cost	26	15	9	1
	26	**15**	**9**	**1**

b) Other impairment losses and provisions

(in EUR million)

	Notes	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Provisions for court cases	35	22	14	17	10
Provisions for other items	35	6	6	6	4
Impairment losses/(release of provisions) on investment securities at amortized cost		2	(2)	2	(2)
(Release of provisions) on balances with CNB		-	(1)	-	(1)
Movement in impairment loss on financial assets FVOCI	44	(1)	(1)	(1)	(1)
(Release of provisions) on off-balance-sheet items	35	(10)	(2)	(8)	(4)
Modification gain		-	(4)	-	(4)
		19	**10**	**16**	**2**

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

14 Income tax expense

a) Income tax expense recognised in the income statement

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Current income tax charge	107	45	66	36
Net deferred tax charge	-	(3)	-	(4)
Income tax expense recognised in the income statement	**107**	**42**	**66**	**32**

b) Reconciliation of income tax expense

The reconciliation between the accounting profit and income tax expense is set out below:

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Accounting profit before tax	**579**	**236**	**380**	**222**
Tax calculated at rate of 18%	104	42	68	40
Effect of different tax rates in Bosnia and Herzegovina	(1)	(1)	-	-
Effect of different tax rates in Slovenia	(1)	-	-	-
Tax effects of:				
Non-deductible expenses	1	-	1	-
Expenses included directly in income tax expense	4	2	3	1
Tax exempt income	-	(1)	(6)	(9)
Total income tax expense	**107**	**42**	**66**	**32**
Effective income tax rate	**18.5%**	**17.8%**	**17.4%**	**14.4%**

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

14 Income tax expense (continued)

c) Deferred tax assets

(in EUR million)

		GROUP		BANK
	2023	2022	2023	2022
Timing differences				
On provisions	14	12	14	12
On impairment of loans	5	5	-	-
On unrealised losses on financial assets at fair value through other comprehensive income	1	3	1	3
On unrealised losses on financial assets at fair value through profit or loss	1	2	-	1
On deferred fees	1	1	1	1
On impairment of real estate	-	1	-	1
Deferred tax assets	**22**	**24**	**16**	**18**

d) Deferred tax liabilities

(in EUR million)

		GROUP		BANK
	2023	2022	2023	2022
Timing differences				
On unrealised gains on tangible assets	10	9	4	4
On unrealised gains on financial assets at fair value through other comprehensive income	1	1	-	-
Deferred tax liabilities	**11**	**10**	**4**	**4**

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

14 Income tax expense (continued)

e) Movement in deferred tax assets

(in EUR million)

Group	**Total**	Deferred fees	Impairment of real estate	Unrealised losses on financial assets at fair value through profit or loss	Impairment on financial assets at FVOCI	Impairment of loans	Provisions	Accrued expenses
Balance as at 1 January 2023	**24**	**1**	**1**	**2**	**3**	**5**	**12**	**-**
Increase credited to income statement	***10***	*1*	*-*	*-*	*-*	*-*	*8*	*1*
Utilisation charged to income statement	***(10)***	*(1)*	*(1)*	*(1)*	*-*	*-*	*(6)*	*(1)*
Net amount charged to income statement	**-**	-	(1)	(1)	-	-	2	-
Increase debited to comprehensive income	**(2)**	-	-	-	*(2)*	-	-	-
Balance as at 31 December 2023	**22**	**1**	**-**	**1**	**1**	**5**	**14**	**-**
Balance as at 1 January 2022	**18**	**1**	**1**	**1**	**-**	**5**	**10**	**-**
Increase credited to income statement	**9**	*1*	-	*2*	-	-	6	-
Utilisation charged to income statement	**(6)**	*(1)*	-	*(1)*	-	-	*(4)*	-
Net amount charged to income statement	**3**	-	-	-	-	-	2	-
Increase debited to comprehensive income	**3**	-	-	-	3	-	-	-
Balance as at 31 December 2022	**24**	**1**	**1**	**2**	**3**	**5**	**12**	**-**

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

14 Income tax expense (continued)

e) Movement in deferred tax assets (continued)

(in EUR million)

Bank	**Total**	Deferred fees	Impairment of real estate	Unrealised losses on financial assets at fair value through profit or loss	Impairment on financial assets at FVOCI	Provisions	Accrued expenses
Balance as at 1 January 2023	**18**	***1***	***1***	***1***	***3***	***12***	**-**
Increase credited to income statement	**9**	*1*	-	-	-	*8*	*1*
Utilisation charged to income statement	**(9)**	*(1)*	*(1)*	*(1)*	-	*(6)*	*(1)*
Net amount charged to income statement	**-**	-	*(1)*	*(1)*	-	2	-
Increase debited to comprehensive income	**(2)**	-	-	-	*(2)*	-	-
Balance as at 31 December 2023	**16**	***1***	**-**	**-**	***1***	***14***	**-**
Balance as at 1 January 2022	**11**	***1***	***1***	**-**	**-**	**9**	**-**
Increase credited to income statement	**10**	*1*	-	2	-	*7*	-
Utilisation charged to income statement	**(6)**	*(1)*	-	*(1)*	-	*(4)*	-
Net amount charged to income statement	**4**	**-**	**-**	***1***	**-**	**3**	**-**
Increase debited to comprehensive income	**3**	-	-	-	3	-	-
Balance as at 31 December 2022	**18**	***1***	***1***	***1***	**3**	***12***	**-**

Notes to the financial statements (continued)

14 Income tax expense (continued)

f) Movement in deferred tax liabilities

(in EUR million)

Group	Total	Unrealised gains on financial assets at FVOCI	Unrealised gains on tangible assets
Balance as at 1 January 2023	**10**	***1***	***9***
Increase credited to other comprehensive income	**2**	-	*2*
Other decreases	**(1)**	-	*(1)*
Balance as at 31 December 2023	**11**	***1***	***10***
Balance as at 1 January 2022	**10**	***1***	***9***
Increase credited to other comprehensive income	**1**	-	*1*
Other decreases	**(1)**	-	*(1)*
Balance as at 31 December 2022	**10**	***1***	***9***

(in EUR million)

Bank	Total	Unrealised gains on tangible assets
Balance as at 1 January 2023	**4**	***4***
Increase credited to other comprehensive income	**1**	*1*
Other decreases	**(1)**	*(1)*
Balance as at 31 December 2023	**4**	***4***
Balance as at 1 January 2022	**4**	***4***
Increase credited to other comprehensive income	**1**	*1*
Other decreases	**(1)**	*(1)*
Balance as at 31 December 2022	**4**	***4***

Notes to the financial statements (continued)

15 Financial assets and financial liabilities

Classification of financial assets and financial liabilities

(in EUR million)

Group	Mandatorily at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
As at 31 December 2023						
Cash and current accounts with banks	-	-	-	-	2,353	**2,353**
Balances with the Croatian National Bank	-	-	-	-	3,334	**3,334**
Financial assets held for trading	51	-	-	-	-	**51**
Derivative financial assets	52	-	-	-	-	**52**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(5)	-	-	-	-	**(5)**
Loans and advances to banks	-	-	-	-	1,834	**1,834**
Loans and advances to customers	-	-	-	-	11,907	**11,907**
Investment securities	6	6	1,483	11	263	**1,769**
Total financial assets	**104**	**6**	**1,483**	**11**	**19,691**	**21,295**
Current accounts and deposits from banks	-	-	-	-	177	**177**
Current accounts and deposits from customers	-	-	-	-	17,258	**17,258**
Derivative financial liabilities	33	-	-	-	-	**33**
Interest-bearing borrowings and other financial liabilities	-	-	-	-	653	**653**
Senior non-preferred and subordinated debt	-	-	-	-	207	**207**
Total financial liabilities	**33**	-	-	-	**18,295**	**18,328**

Notes to the financial statements (continued)

15 Financial assets and financial liabilities (continued)

Classification of financial assets and financial liabilities (continued)

(in EUR million)

Bank	Mandatorily at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
As at 31 December 2023						
Cash and current accounts with banks	-	-	-	-	1,087	**1,087**
Balances with the Croatian National Bank	-	-	-	-	3,334	**3,334**
Financial assets held for trading	51	-	-	-	-	**51**
Derivative financial assets	22	-	-	-	-	**22**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	8	-	-	-	-	**8**
Loans and advances to banks	-	-	-	-	1,507	**1,507**
Loans and advances to customers	-	-	-	-	8,271	**8,271**
Investment securities	5	4	1,141	-	243	**1,393**
Total financial assets	**86**	**4**	**1,141**	**-**	**14,442**	**15,673**
Current accounts and deposits from banks	-	-	-	-	149	**149**
Current accounts and deposits from customers	-	-	-	-	12,839	**12,839**
Derivative financial liabilities	29	-	-	-	-	**29**
Interest-bearing borrowings and other financial liabilities	-	-	-	-	438	**438**
Senior non-preferred and subordinated debt	-	-	-	-	135	**135**
Total financial liabilities	**29**	**-**	**-**	**-**	**13,561**	**13,590**

Notes to the financial statements (continued)

15 Financial assets and financial liabilities (continued)

Classification of financial assets and financial liabilities (continued)

(in EUR million)

Group	Mandatorily at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
As at 31 December 2022						
Cash and current accounts with banks	-	-	-	-	6,194	**6,194**
Balances with the Croatian National Bank	-	-	-	-	395	**395**
Financial assets held for trading	72	-	-	-	-	**72**
Derivative financial assets	87	-	-	-	-	**87**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(65)	-	-	-	-	**(65)**
Loans and advances to banks	-	-	-	-	1,012	**1,012**
Loans and advances to customers	-	-	-	-	11,141	**11,141**
Investment securities	5	5	1,352	11	267	**1,640**
Total financial assets	**99**	**5**	**1,352**	**11**	**19,009**	**20,476**
Current accounts and deposits from banks	-	-	-	-	322	**322**
Current accounts and deposits from customers	-	-	-	-	16,816	**16,816**
Derivative financial liabilities	3	-	-	-	-	**3**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	**-**
Interest-bearing borrowings and other financial liabilities	-	-	-	-	650	**650**
Senior non-preferred and subordinated debt	-	-	-	-	135	**135**
Total financial liabilities	**3**	**-**	**-**	**-**	**17,923**	**17,926**

Notes to the financial statements (continued)

15 Financial assets and financial liabilities (continued)

Classification of financial assets and financial liabilities (continued)

(in EUR million)

Bank	Mandatorily at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
As at 31 December 2022						
Cash and current accounts with banks	-	-	-	-	5,129	**5,129**
Balances with the Croatian National Bank	-	-	-	-	395	**395**
Financial assets held for trading	72	-	-	-	-	**72**
Derivative financial assets	39	-	-	-	-	**39**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(39)	-	-	-	-	**(39)**
Loans and advances to banks	-	-	-	-	739	**739**
Loans and advances to customers	-	-	-	-	7,699	**7,699**
Investment securities	4	3	1,052	-	267	**1,326**
Total financial assets	**76**	**3**	**1,052**	**-**	**14,229**	**15,360**
Current accounts and deposits from banks	-	-	-	-	224	**224**
Current accounts and deposits from customers	-	-	-	-	12,679	**12,679**
Derivative financial liabilities	1	-	-	-	-	**1**
Interest-bearing borrowings and other financial liabilities	-	-	-	-	434	**434**
Senior non-preferred and subordinated debt	-	-	-	-	135	**135**
Total financial liabilities	**1**	**-**	**-**	**-**	**13,472**	**13,473**

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

16 Cash and current accounts with banks

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Cash in hand	1,171	1,027	927	799
Current accounts with foreign banks	1,050	882	29	47
Current accounts with the CNB	131	4,283	131	4,283
Current accounts with domestic banks	1	2	-	-
	2,353	**6,194**	**1,087**	**5,129**
of which mandatory reserve	*148*	*30*	*114*	-

The Group and the Bank are required to maintain a mandatory reserve with the central banks (Croatian National Bank for the Bank and Bank of Slovenia for the Group), related to the volume and structure of its customer deposits. The current requirement of national banks regarding the calculation of the amount to be held as mandatory reserve is 1% of sight and time deposits and issued debt securities with maturities up to two years.

The Group and the Bank maintains sufficient liquid assets to fully comply with the central banks requirements.

17 Balances with the Croatian National Bank

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Overnight deposit	3,334	-	3,334	-
Other deposits	-	395	-	395
	3,334	**395**	**3,334**	**395**

Other deposits in the amount of EUR 395 million relate to collateral placed with the CNB for the euro banknotes used in the process of sub frontloading under which banks supplied companies with banknotes and coins before the date of the introduction of the euro.

18 Financial assets held for trading

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Republic of Croatia bonds	50	72	50	72
Accrued interest	1	-	1	-
	51	**72**	**51**	**72**
Listed securities	*51*	*72*	*51*	*72*
	51	**72**	**51**	**72**

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

19 Derivative financial assets

a) Derivative financial assets classified as held for trading

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Fair value:				
Forward foreign exchange contracts and swaps	1	2	-	-
	1	**2**	**-**	**-**
Notional amount:				
Forward foreign exchange contracts and swaps	32	63	4	34
Interest rate contracts	-	3	-	-
	32	**66**	**4**	**34**

The Group uses foreign currency forward and swap contracts to manage its exposure to foreign currency risk. Interest rate cap derivative contracts are used for the purpose of interest rate risk management.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of instruments and, therefore, do not indicate the Group's exposure to credit or price risks.

b) Derivative financial assets held for hedge accounting

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Fair value:				
Interest rate swaps - micro hedge	12	19	-	-
Interest rate swaps - macro hedge	39	66	22	39
	51	**85**	**22**	**39**
Notional amount:				
Interest rate swaps - micro hedge	138	196	-	-
Interest rate swaps - macro hedge	643	643	435	450
	781	**839**	**435**	**450**

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

19 Derivative financial assets (continued)

Hedge accounting

The Bank introduced hedge accounting with the aim of managing interest rate risk in the banking book. Within the Group, Intesa Sanpaolo banka d.d. Slovenia also applies hedge accounting. By using derivative financial instruments to hedge against exposure to interest rate changes, the Bank is also exposed to counterparty credit risk, which is not compensated by a hedged item. Since the interest rate swap belongs to the class of derivatives subject to the clearing obligation, clearing transactions are carried out by the CCP.

To reduce exposure to changes in fair value, the bank protects positions at a fixed interest rate. For the Bank, it is envisaged to establish a macro protection of fair value (a portfolio of smaller loans). Macro hedge is hedging a portfolio of mortgage loans to households and on a portfolio of consumer loans to households denominated in local currency with a fixed interest rate period.

At the Group level, interest rate swaps are also used to protect exposure to changes in the fair value of fixed-rate bonds and fixed-rate loans and advances denominated in EUR and USD currency, at a micro level of protection (one to one), by Intesa Sanpaolo banka d.d. Slovenia. Also, as of December 2023, an interest swap has been concluded in the Group to protect cash flow changes (Cash Flow Hedge) on the mortgage loan portfolio with a variable interest rate.

Before fair value hedge accounting is applied by the Group, the Group determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship and evaluates whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks.

Prospective capacity and efficiency testing are performed before entering a hedging relationship. The Group establishes hedge ratios by aligning the fair value of the fixed-rate loan or bond and the fair value of the interest rate swap designated as a hedging instrument and their fair value sensitivity. The hedges are designed to maintain the ratios within an 80%-125% range.

c) Fair value changes of the hedged items in portfolio hedge of interest rate risk

(in EUR million)

		GROUP		**BANK**
	2023	2022	2023	2022
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(5)	(65)	8	(39)
	(5)	**(65)**	**8**	**(39)**

Notes to the financial statements (continued)

20 Loans and advances to banks

a) Analysis by type of product

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Loans	988	107	968	96
Term deposits and placements	732	802	540	644
Obligatory reserve with CBBH	115	104	-	-
	1,835	**1,013**	**1,508**	**740**
Impairment loss allowance	(1)	(1)	(1)	(1)
	1,834	**1,012**	**1,507**	**739**

Term deposits mainly relate to short-term deposits with local and foreign banks bearing an average annual interest rate in the range of 0% and 6.5% (2022: in the range of -1% and 5.1%).

The obligatory reserve with the Bosnia and Herzegovina central bank ("CBBH") represents amounts required to be deposited with CBBH. The obligatory reserve is calculated on the basis of deposits and borrowings taken, regardless of the currency (excluding borrowings taken from foreign entities and funds from governments of Bosnia and Herzegovina entities for development projects).

b) Geographical analysis

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Italy	1,135	189	968	21
Germany	181	192	181	191
Austria	121	8	97	-
Bosnia and Herzegovina	115	124	1	20
Switzerland	102	106	102	106
Belgium	92	-	92	-
Republic of Croatia	60	93	59	115
Slovenia	19	12	-	-
Great Britain	4	92	4	92
Norway	1	30	1	30
France	-	118	-	118
Netherlands	-	17	-	17
Other countries	5	32	3	30
	1,835	**1,013**	**1,508**	**740**
Impairment loss allowance	(1)	(1)	(1)	(1)
	1,834	**1,012**	**1,507**	**739**

As at 31 December 2023 loans and advances to banks included reverse repurchase agreements in the amount of EUR 825 million for the Group and for the Bank (2022: EUR 52 million for the Group and for the Bank). Such agreements are secured with government bonds and treasury bills. For details on sale and repurchase agreements please refer to Note 44 Financial risk management policies

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

21 Loans and advances to customers

a) Analysis by type of customer

(in EUR million)

Loans and advances to customers at amortized cost	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Retail customers	6,429	5,849	4,613	4,132
Corporate customers	4,263	4,093	2,528	2,411
Public sector and other institutions	1,633	1,605	1,413	1,438
	12,325	**11,547**	**8,554**	**7,981**
Impairment allowance	(413)	(399)	(282)	(280)
Modification	3	3	3	3
Loans and advances to customers net of impairment allowance	**11,915**	**11,151**	**8,275**	**7,704**
Deferred fees recognised as an adjustment to the effective yield	(8)	(10)	(4)	(5)
	11,907	**11,141**	**8,271**	**7,699**

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

21 Loans and advances to customers (continued)

b) Analysis by sector

(in EUR million)

	GROUP		BANK	
	2023	2022	2023	2022
Individuals	6,429	5,849	4,613	4,132
Public administration and defence; compulsory social security	955	934	726	754
Electricity, gas, steam and air conditioning supply	903	785	712	576
Construction	851	810	785	750
Manufacturing	790	803	354	371
Wholesale and retail trade; repair of motor vehicles and motorcycles	696	718	293	330
Transporting and storage	478	432	140	153
Accommodation and food service activities	225	270	192	232
Financial and insurance activities	222	135	239	157
Real estate activities	133	199	85	143
Information and communication	114	134	68	56
Agriculture, forestry and fishing	105	108	85	87
Professional, scientific and technical activities	103	88	51	50
Water supply; sewerage; waste management and remediation activities	94	88	66	67
Human health and social work activities	43	51	28	32
Mining and quarrying	42	25	27	1
Other services activities	40	19	14	15
Administrative and support service activities	39	36	21	22
Arts, entertainment and recreation	38	40	35	35
Education	25	23	20	18
	12,325	**11,547**	**8,554**	**7,981**

Loans and advances to customers also include finance lease receivables. For a more detailed analysis of finance lease receivables please refer to Note *40 Leases*.

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

21 Loans and advances to customers (continued)

c) Collateral repossessed

During the year, the Group foreclosed on assets previously charged to them as collateral, and thereby recognised foreclosed assets with a carrying value of EUR 4 million and nil for the Bank (2022: EUR 5 million Group and nil for the Bank). The repossessed collateral, which the Group is in the process of selling, is disclosed as foreclosed assets within Note 24 Other assets. In general, the Group does not occupy repossessed properties for business use.

22 Investment securities

(in EUR million)

		GROUP		BANK	
	Note	2023	2022	2023	2022
Investment securities measured at FVOCI – debt instruments	22a	1,483	1,352	1,141	1,052
Investment securities measured at amortised cost	22b	263	267	243	267
Investment securities designated as at FVOCI – equity investments	-	11	11	-	-
Investment securities mandatorily measured at FVTPL – debt securities	-	6	5	4	3
Investment securities mandatorily measured at FVTPL – equity securities	-	6	5	5	4
		1,769	**1,640**	**1,393**	**1,326**

Neosjetljivo - Non-sensitive

Notes to the financial statements (continued)

22 Investment securities (continued)

a) Investment securities measured at FVOCI – debt instruments

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Foreign government treasury bills	686	25	657	-
Domestic government treasury bills	268	800	268	793
Foreign government bonds	256	212	-	-
Domestic government bonds	216	259	216	259
Other financial institutions bonds	50	49	-	-
Bank bonds	7	7	-	-
	1,483	**1,352**	**1,141**	**1,052**

b) Investment securities measured at amortised cost

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Domestic government bonds	156	136	136	136
Corporate bonds	104	128	104	128
Municipal bond	3	3	3	3
	263	**267**	**243**	**267**

23 Investments in subsidiaries and associates

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Consolidated subsidiaries	-	-	241	241
Associates accounted for under the equity method by the Group and at cost by the Bank	9	9	4	4
	9	**9**	**245**	**245**
Movements				
Balance at 1 January	**9**	**9**	**245**	**260**
Share of profits from associates	1	1	-	-
Merger of PBZ Stambena Štedionica d.d.	-	-	-	(15)
Receipt of dividend	(1)	(1)	-	-
Balance at 31 December	**9**	**9**	**245**	**245**

Notes to the financial statements (continued)

23 Investments in subsidiaries and associates (continued)

The principal investments in subsidiaries and associates as at 31 December are as follows:

	Residence	Identification number	ID number	Nature of business	2023 holding %	2022 holding %
CONSOLIDATED SUBSIDIARIES						
PBZ Card d.o.o.	Croatia, Zagreb, Radnička cesta 44	80258649	28495895537	card services	100	100
PBZ Leasing d.o.o.	Croatia, Zagreb, Radnička cesta 44	3796540	57270798205	leasing	100	100
Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina	Bosnia and Herzegovina, Sarajevo, Obala Kulina bana 9a	6502000911	49307371766	credit institution	99	99
Intesa Sanpaolo Bank d.d. Slovenia	Slovenia, Koper, Pristaniška ulica 14	5092221000	74655065389	credit institution	51	51
ASSOCIATES						
PBZ Croatia Osiguranje d.d.	Croatia, Zagreb, Radnička cesta 44	8046496	20455535575	pension management	50	50

Notes to the financial statements (continued)

23 Investments in subsidiaries and associates (continued)

The Group considers that its 50% investment in PBZ Croatia Osiguranje d.d. represent investment in associates (31 December 2022: 50% investment in PBZ Croatia Osiguranje d.d.) as the Group does not have control over the company. Consequently, PBZ Croatia Osiguranje d.d. is accounted for using the equity method in the consolidated financial statements.

The following table illustrates summarised financial information of the PBZ Croatia Osiguranje d.d.:

(in EUR million)

PBZ Croatia Osiguranje d.d.	2023	2022
Associates' statement of financial position		
Current assets	19	18
Current liabilities	(1)	(1)
Net assets of associate	**18**	**17**
Attributable to PBZ Group	**9**	**9**
Associates' income statements		
Revenue	10	9
Expenses	(8)	(7)
Profit	**2**	**2**
Attributable to PBZ Group	**1**	**1**

Involvement in unconsolidated structured entities

The Group is involved in financing several special purpose entities that carry out various activities, such as real estate construction, tourism, etc. The Group concluded that it does not control, and therefore should not consolidate, the special purpose entities and its involvement is in all cases limited to providing finance with aim of collecting interest. Taken as a whole, the Group does not have power over the relevant activities of those entities.

Notes to the financial statements (continued)

23 Investments in subsidiaries and associates (continued)

Merger of PBZ Stambena Štedionica d.d.

As of 16 June 2022 PBZ Stambena Štedionica d.d. was legally merged into the Bank, whereby PBZ Stambena Štedionica d.d. ceased to exist as a separate legal and operational financial institution. Assets and liabilities acquired by the Bank as a result of the merger are recognised at the carrying amounts recognised immediately prior to the merger in the financial statements of PBZ Stambena Štedionica d.d. The components of equity of PBZ Stambena Štedionica d.d. were added to the same components within the Bank's equity except for issued capital which were eliminated on merger.

The carrying values of assets and liabilities of PBZ Stambena Štedionica d.d. as at 15 June 2022, the date that preceded the merger were as follows:

	(in EUR million) **15 June 2022**
Loans and advances to banks	100
Loans and advances to customers	103
Investment securities	16
Total assets	**219**
Current accounts and deposits from customers	185
Other liabilities	1
Total liabilities	**186**
Net assets and liabilities	**33**
Less: carrying value of the investment in the subsidiary	15
Differences recorded directly in Bank's equity	**18**
Merger of subsidiary - increase in reserves of the Bank	
Other reserves	1
Retained earnings	17
	18

Notes to the financial statements (continued)

24 Other assets

(in EUR million)

	GROUP		BANK	
	2023	2022	2023	2022
Prepaid expenses	14	16	11	12
Receivables in course of collection and transitory items	14	9	11	6
Foreclosed assets	8	7	1	1
Receivables from tax authority (except income tax)	5	1	-	-
Advances	1	-	-	-
Other assets	5	6	3	3
	47	**39**	**26**	**22**
Impairment	(1)	(1)	(1)	(1)
	46	**38**	**25**	**21**

Movement in impairment

(in EUR million)

	GROUP		BANK	
	2023	2022	2023	2022
Balance at 1 January	**1**	**4**	**1**	**1**
Disposals	-	(3)	-	-
Balance at 31 December	**1**	**1**	**1**	**1**

Notes to the financial statements (continued)

25 Property and equipment

(in EUR million)

Group	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Leasehold improvements	Assets acquired but not brought into use	**Total**
Acquisition cost							
Balance at 1 January 2022	**221**	**75**	**10**	**69**	**37**	**7**	**419**
Additions	-	-	-	-	-	32	**32**
Transfer into use	14	5	6	6	2	(33)	**-**
Disposals	(12)	(3)	(1)	(11)	(4)	-	**(31)**
Reclassified to investment property	(1)	-	-	-	-	-	**(1)**
Reclassified to non-current assets held for sale	(1)	-	-	-	-	-	**(1)**
Reclassified to other assets	(3)	-	(2)	-	-	-	**(5)**
Balance at 31 December 2022	**218**	**77**	**13**	**64**	**35**	**6**	**413**
Additions	**-**	-	-	-	-	50	**50**
Transfer into use	8	4	28	8	3	(51)	**-**
Disposals	(10)	(3)	(9)	(5)	(2)	-	**(29)**
Reclassified to non-current assets held for sale	(1)	-	-	-	-	-	**(1)**
Reclassified to other assets	(4)	-	-	-	-	-	**(4)**
Application of revaluation model: Fair value gain	11	-	-	-	-	-	**11**
Application of revaluation model: Reversal of accumulated depreciation	(19)	-	-	-	-	-	**(19)**
Balance at 31 December 2023	**203**	**78**	**32**	**67**	**36**	**5**	**421**

Notes to the financial statements (continued)

25 Property and equipment

(in EUR million)

Group	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Leasehold improvements	Assets acquired but not brought into use	**Total**
Accumulated depreciation							
Balance at 1 January 2022	**28**	**65**	**4**	**47**	**32**	**-**	**176**
Charge for the year	14	3	2	6	1	-	**26**
Disposals	(2)	(3)	(1)	(10)	(3)	-	**(19)**
Reversal of impairment	(1)	-	-	-	-	-	**(1)**
Reclassified to other assets	(1)	-	(2)	-	-	-	**(3)**
Balance at 31 December 2022	**38**	**65**	**3**	**43**	**30**	**-**	**179**
Charge for the year	14	4	4	7	1	-	**30**
Disposals	(3)	(3)	(1)	(4)	(1)	-	**(12)**
Application of revaluation model: Reversal of accumulated depreciation	(19)	-	-	-	-	-	**(19)**
Balance at 31 December 2023	**30**	**66**	**6**	**46**	**30**	**-**	**178**
Carrying value							
Balance at 31 December 2022	**180**	**12**	**10**	**21**	**5**	**6**	**234**
Balance at 31 December 2023	**173**	**12**	**26**	**21**	**6**	**5**	**243**

Notes to the financial statements (continued)

25 Property and equipment (continued)

(in EUR million)

Bank	Land and build-ings	Furni-ture and other equip-ment	Motor vehi-cles	Com-puter equip-ment	Lease-hold im-prove-ments	Assets ac-quired but not brough t into use	**Total**
Acquisition cost							
Balance at 1 January 2022	**128**	**60**	**2**	**56**	**31**	**6**	**283**
Additions	-	-	-	-	-	23	**23**
Transfer into use	13	5	-	5	1	(24)	**-**
Disposals	(3)	(2)	-	(8)	(3)	-	**(16)**
Reclassified to non-current assets held for sale	(1)	-	-	-	-	-	**(1)**
Balance at 31 December 2022	**137**	**63**	**2**	**53**	**29**	**5**	**289**
Additions	-	-	-	-	-	19	**19**
Transfer into use	8	3	2	6	1	(20)	**-**
Disposals	(2)	(2)	(1)	(4)	(1)	-	**(10)**
Reclassified to non-current assets held for sale	(1)	-	-	-	-	-	**(1)**
Application of revaluation model: Fair value gain	4	-	-	-	-	-	**4**
Application of revaluation model: Reversal of accumulated depreciation	(9)	-	-	-	-	-	**(9)**
Balance at 31 December 2023	**137**	**64**	**3**	**55**	**29**	**4**	**292**

Notes to the financial statements (continued)

25 Property and equipment (continued)

(in EUR million)

Bank	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Leasehold improvements	Assets acquired but not brought into use	**Total**
Accumulated depreciation							
Balance at 1 January 2022	**20**	**52**	**1**	**37**	**28**	**-**	**138**
Charge for the year	10	3	-	5	1	-	**19**
Disposals	(2)	(2)	-	(8)	(3)		**(15)**
Modification	3	-	-	-	-	-	**3**
Balance at 31 December 2022	**31**	**53**	**1**	**34**	**26**	**-**	**145**
Charge for the year	**10**	**3**	**1**	**7**	**1**	**-**	**22**
Disposals	(1)	(2)	(1)	(3)	(1)	-	**(8)**
Application of revaluation model: Reversal of accumulated depreciation	(9)	-	-	-	-	-	**(9)**
Balance at 31 December 2023	**31**	**54**	**1**	**38**	**26**	**-**	**150**
Carrying value							
Balance at 31 December 2022	**106**	**10**	**1**	**19**	**3**	**5**	**144**
Balance at 31 December 2023	**106**	**10**	**2**	**17**	**3**	**4**	**142**

As of 31 December 2023, the Group's land and buildings were revalued to their fair value based on the valuation of independent expert. Last revaluation was performed as of 31 December 2020. The valuation, which confirms to International Valuation Standards, was performed by independent real estate appraiser RINA and was determined by reference to model discounted cash flow method. Current market conditions were used as assumptions for the valuations performed.

Notes to the financial statements (continued)

26 Non-current assets held for sale

At 31 December 2023, the non-current assets held for sale was stated at lower of their carrying amount and fair value less cost to sell and comprised the following assets:

(in EUR million)

		GROUP		**BANK**
	2023	2022	2023	2022
Acquiring business held for sale	-	38	-	-
Investment property	1	3	1	1
Property and equipment	1	1	-	-
	2	**42**	**1**	**1**

During 2022 PBZ Card d.o.o., (a fully owned subsidiary of Privredna banka Zagreb) entered into a Framework agreement with Nexi Croatia d.o.o. in order to realise the sale of acquiring business (defined as "business relating to the acquiring of payment transactions operated by PBZ Card d.o.o. comprising of assets and properties, contracts and rights, liabilities and obligations pertaining to the business owned, organised and operated by PBZ Card d.o.o."). Following externally required approvals, the transaction between the parties has been executed during 2023.

27 Intangible assets

(in EUR million)

Group	Goodwill	Software	Other intangible assets	Assets acquired but not brought into use	**Total**
Acquisition cost					
Balance at 1 January 2022	**2**	**145**	**6**	**16**	**169**
Additions	-	-	-	16	**16**
Transfer into use	-	13	-	(13)	**-**
Balance at 31 December 2022	**2**	**158**	**6**	**19**	**185**
Additions	-	-	-	21	**21**
Transfer into use	-	28	-	(28)	**-**
Disposals and eliminations	-	(3)	(1)	(2)	**(6)**
Balance at 31 December 2023	**2**	**183**	**5**	**10**	**200**

Notes to the financial statements (continued)

27 Intangible assets

(in EUR million)

Group

	Goodwill	Software	Other intangible assets	Assets acquired but not brought into use	**Total**
Accumulated amortisation					
Balance at 1 January 2022	**-**	**119**	**6**	**-**	**125**
Charge for the year	-	7	-	-	**7**
Disposals and eliminations	-	-	-	-	**-**
Balance at 31 December 2022	**-**	**126**	**6**	**-**	**132**
Charge for the year	-	8	-	-	**8**
Disposals and eliminations	-	(3)	(1)	-	**(4)**
Balance at 31 December 2023	**-**	**131**	**5**	**-**	**136**
Carrying value					
Balance at 31 December 2022	**2**	**32**	**-**	**19**	**53**
Balance at 31 December 2023	**2**	**52**	**-**	**10**	**64**

Goodwill represents goodwill arising from the acquisition of Međimurska banka in the amount of EUR 2 million (2022: EUR 2 million), recognised as a purchased goodwill following the merger of Međimurska banka d.d. into Privredna banka Zagreb as at 1 December 2012.

Notes to the financial statements (continued)

27 Intangible assets (continued)

(in EUR million)

Bank	Goodwill	Software	Assets acquired but not brought into use	**Total**
Acquisition cost				
Balance at 1 January 2022	**2**	**105**	**12**	**119**
Additions	-	-	13	**13**
Transfer into use	-	11	(12)	**(1)**
Balance at 31 December 2022	**2**	**116**	**13**	**131**
Additions	-	-	15	**15**
Transfer into use	-	23	(23)	**-**
Balance at 31 December 2023	**2**	**139**	**5**	**146**

(in EUR million)

Bank	Goodwill	Software	Assets acquired but not brought into use	**Total**
Accumulated amortisation				
Balance at 1 January 2022	**-**	**88**	**-**	**88**
Charge for the year	-	5	-	**5**
Balance at 31 December 2022	**-**	**93**	**-**	**93**
Charge for the year	-	5	-	**5**
Balance at 31 December 2023	**-**	**98**	**-**	**98**
Carrying value				
Balance at 31 December 2022	**2**	**23**	**13**	**38**
Balance at 31 December 2023	**2**	**41**	**5**	**48**

Following the legal merger of Međimurska banka into the Bank as at 1 December 2012, the goodwill formerly arising on consolidation of Međimurska banka was transferred into purchased goodwill and recognised in the Bank's separate statement of financial position.

The Group capitalised EUR 8 million (2022: EUR 7 million) and the Bank EUR 6 million (2022: EUR 6 million) of internal costs for software development.

Notes to the financial statements (continued)

28 Current accounts and deposits from banks

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Demand deposits	91	213	89	210
Term deposits	86	109	60	14
	177	**322**	**149**	**224**

29 Current accounts and deposits from customers

a) Analysis by term

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Demand deposits	13,044	13,746	9,928	10,468
Term deposits	4,214	3,070	2,911	2,211
	17,258	**16,816**	**12,839**	**12,679**

b) Analysis by source

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Retail deposits	11,204	11,203	8,535	8,632
Corporate deposits	4,732	4,244	3,279	3,037
Public sector and other institutions	1,322	1,369	1,025	1,010
	17,258	**16,816**	**12,839**	**12,679**

Notes to the financial statements (continued)

30 Derivative financial liabilities

a) Derivative financial liabilities classified as held for trading

(in EUR million)

		GROUP		**BANK**
	2023	2022	2023	2022
Fair value:				
Forward foreign exchange contracts and swaps	1	3	-	1
	1	**3**	**-**	**1**
Notional amount:				
Forward foreign exchange contracts and swaps	34	97	6	68
	34	**97**	**6**	**68**

b) Derivative financial liabilities held for hedge accounting

(in EUR million)

		GROUP		**BANK**
	2023	2022	2023	2022
Fair value:				
Interest rate swaps - macro hedge	32	-	29	-
	32	**-**	**29**	**-**
Notional amount:				
Interest rate swaps - macro hedge	697	-	630	-
	697	**-**	**630**	-

Notes to the financial statements (continued)

31 Interest-bearing borrowings and other financial liabilities

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Domestic borrowings	386	363	362	346
Foreign borrowings	232	252	42	54
Lease liabilities	32	32	32	32
Other financial liabilities	3	3	3	3
Accrued fee	-	-	(1)	(1)
	653	**650**	**438**	**434**

a) Foreign borrowings

Foreign borrowings of the Group include short-term and long-term loans received from foreign banks and non-financial institutions denominated mostly in EUR and BAM and with floating interest rates.

b) Domestic borrowings

Domestic borrowings of the Group mainly consist of loans received from the Croatian Bank for Reconstruction and Development ("HBOR") in the amount of EUR 222 million (2022: EUR 212 million) and Croatian National Bank in the amount of EUR 134 million (2022: EUR 134 million).

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.

The Group has not had any defaults of principal, interest or other breaches with regard to any liabilities during 2023 or 2022.

c) *Undrawn commitments*

At 31 December 2023, the Group had available EUR 788 million (2022: EUR 469 million) and the Bank EUR 715 million (2022: EUR 350 million) of undrawn committed borrowing facilities.

32 Senior non-preferred and subordinated debt

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Senior non-preferred debt	197	135	135	135
Subordinated debt in form of deposits	10	-	-	-
	207	**135**	**135**	**135**

To ensure sound position and to anticipate primarily the impact of loans increase on RWA for credit risk during 2023 and 2022, for the purpose of compliance to minimal requirement for eligible liabilities (MREL), the Group and the Bank has utilized several tranches of senior non preferred loans issued by Parent Bank Intesa Sanpaolo. On a Group level, to further strengthen compliance to MREL regulatory requirement and management of the interest rate risk in the banking book subordinated debt in form of deposit for ISP Slovenia was issued by Parent Bank Intesa Sanpaolo.

Notes to the financial statements (continued)

33 Other liabilities

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Items in the course of settlement and other liabilities	166	95	132	91
Card business payables and trade payables	99	126	6	8
Salaries and other personnel costs	26	25	20	19
	291	**246**	**158**	**118**

34 Accrued expenses and deferred income

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Accrued expenses	45	38	23	21
Deferred income	9	17	1	1
	54	**55**	**24**	**22**

35 Provisions

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Provisions for liabilities and charges	103	102	91	89
Retirement benefit obligations	2	2	-	-
	105	**104**	**91**	**89**

a) Provisions for liabilities and charges

(in EUR million)

Group	**Total**	Provisions for off-balance-sheet items	Provisions for court cases	Provisions for other items
Balance as at 1 January 2023	**102**	**31**	**58**	**13**
Net charge in the income statement	**18**	(10)	22	6
Provisions used during the year	**(17)**	-	(9)	(8)
Balance as at 31 December 2023	**103**	**21**	**71**	**11**
Balance as at 1 January 2022	**94**	**33**	**52**	**9**
Net charge in the income statement	18	(2)	14	6
Provisions used during the year	(10)	-	(8)	(2)
Balance as at 31 December 2022	**102**	**31**	**58**	**13**

Notes to the financial statements (continued)

35 Provisions (continued)

a) Provisions for liabilities and charges (continued)

(in EUR million)

Bank	**Total**	Provisions for off-balance-sheet items	Provisions for court cases	Provisions for other items
Balance as at 1 January 2023	**89**	**26**	**53**	**10**
Net charge in the income statement	**15**	(8)	17	6
Provisions used during the year	**(13)**	-	(6)	(7)
Balance as at 31 December 2023	**91**	**18**	**64**	**9**
Balance as at 1 January 2022	**88**	**30**	**50**	**8**
Net charge in the income statement	10	(4)	10	4
Provisions used during the year	(9)	-	(7)	(2)
Balance as at 31 December 2022	**89**	**26**	**53**	**10**

Provisions for other items include termination indemnities, deferred bonuses and other.

Provisions for off-balance-sheet items, court cases and other items are recognised in other impairment losses and provisions in the income statement (Note 13 Impairment losses).

Provision for off-balance-sheet items relates to specific and collective impairment provisions on credit-related contingencies as disclosed in Note 37 Contingent liabilities and commitments.

As at 31 December 2023 there were several litigation cases taken against the Group, In the opinion of management, there is a probability that the Group may lose certain cases, in respect of which management has recognised provisions for court cases as at 31 December 2023 in the amount of EUR 71 million (31 December 2022: EUR 58 million) for the Group and EUR 64 million (31 December 2022: EUR 53 million), for the Bank, respectively.

Notes to the financial statements (continued)

35 Provisions (continued)

a) Provisions for liabilities and charges (continued)

As already noted in the prior year, Privredna Banka Zagreb and seven other Croatian banks are defending themselves within an action brought by Potrošač (Croatian Union of the Consumer Protection Association) in relation to loans denominated or indexed to Swiss francs granted in the past. According to the plaintiff, the defendant banks behaved improperly by allegedly using illegitimate interest rate forecasts, which could be changed unilaterally by the bank, and by denominating the loans granted in Swiss francs (or indexing them to Swiss francs) without allegedly duly informing consumers of the risks before the signing of the respective loan agreements. In September 2019, the Croatian Supreme Court rendered a ruling in the collective action proceedings, rejecting the appeals filed by the sued banks against the High Commercial Court ruling from 2018 and confirming the position of courts of lower instance that banks had breached collective interests and rights of consumers by incorporating unfair and null and void provisions on CHF currency clause. The decision of the Supreme Court was challenged by PBZ before the Constitutional Court, which rejected the claim at the beginning of 2021. The Bank thus lodged an appeal before the European Court of Human Rights, rejected in the last part of 2022. In connection with the mentioned proceedings for the protection of the collective interests of consumers, numerous individual proceedings have been brought by customers against PBZ, despite the fact that most of them voluntarily accepted the offer to convert their CHF loans into EUR denominated loans retroactively, in accordance with the Act on the Amendments to the Consumer Credit Act (Croatian Official Gazette 102/2015 - "Conversion Law"). In March 2020, the Croatian Supreme Court, within model case proceedings (a Supreme Court proceedings with obligatory effect on lower instance courts with the aim of unifying/harmonizing case law), ruled that the conversion agreements concluded between banks and borrowers under the Croatian Conversion Law of 2015 produce legal effects and are valid even in the case when the provisions of the underlying loan agreements on variable interest rate and currency clause are null and void. In May 2022 the EU Court of Justice, within a proceedings involving another intermediary, rendered a preliminary ruling stating that the EU Court of Justice has jurisdiction with reference to the conversion agreement concluded consistently with the Conversion Law, because they have been concluded after Croatia's accession to the EU, and that the Unfair Contract Terms Directive is not applicable to said conversion agreements, whose contents reproduce provisions of national laws.

With regard to the PBZ" s appeal to the European Court of Human Rights, on 1 December 2022 the Court declared the application inadmissible.

The legal understanding adopted by the Supreme Court of Republic of Croatia on 20th December 2022 has not been confirmed by the Court Practice Records Department and therefore it is still no final and binding for lower instance courts.

The number of new individual lawsuits filed against PBZ in 2023 was higher than those in 2022. At the end of 2023, the total pending cases amounted to a few thousand. Since the statute of limitation for submitting the lawsuits related to CHF loans expired on 14th June 2023, no new lawsuits on the same legal ground is expected. Due to the strike in judiciary in summer 2023, the Bank still has not received all new lawsuits filed before the expiration date.

Notes to the financial statements (continued)

35 Provisions (continued)

a) Provisions for liabilities and charges (continued)

The management of the Bank is reasonably confident that the amount of provisions recognized as at 31 December 2023 is adequate – according to available information - to meet the obligations arising from the claims filed so far. The evolution of the overall matter is anyhow carefully monitored in order to take appropriate initiatives, if necessary, in consistence with any future developments.

The provisions for mentioned proceedings are not disclosed, due to the possibility that such disclosure might adversely influence the Bank's position in the active legal disputes. The management of the Bank deems that the provisions are adequately calculated.

b) Retirement benefit obligation

(in EUR million)

Group	Retirement benefit obligations
Balance as at 1 January 2023	**2**
Net charge in the income statement	-
Actuarial gain	-
Balance as at 31 December 2023	**2**
Balance as at 1 January 2022	**3**
Net charge in the income statement	-
Actuarial gain	(1)
Balance as at 31 December 2022	**2**

The defined benefit scheme liabilities are measured on an actuarial basis using the book reserve method, which measures actuarial liabilities in accordance with the expected wage/salary increase from the valuation date until the foreseen retirement of the employed person. The wage/salary increase comprises promotion and inflation-related rise. Under IAS 19, the calculated current scheme liabilities are discounted using the rates equivalent to the market yields at the balance-sheet date on high quality 10-years corporate bonds that are denominated in the currency in which the benefits will be paid by the employer. For the calculation of actuarial gains and losses, the following assumptions have been used:

- The discount rate of 4.51% (2022: 4.59%), and
- Future salary increases of 1.8% p.a. from 2024 onwards (2023: 1.8%).

Notes to the financial statements (continued)

Notes to the financial statements (continued)

36 Share capital

a) Issued share capital

Issued share capital as at 31 December 2023 amounted to EUR 244 million (31 December 2022: EUR 249 million). The total number of authorised registered shares at 31 December 2023 was 18,765,747 (2022: 18,765,747) with a nominal value of EUR 13,00 per share (2022: EUR 13,27 per share).

The parent company of the Bank is Intesa Sanpaolo Holding International and the ultimate controlling party is Intesa Sanpaolo S.p.A. Financial reports of the parent company are available on web page https://group.intesasanpaolo.com/en/investor-relations/financial-reports.

The ownership structure as at 31 December 2023 and 31 December 2022 was as follows:

				REGISTERED SHARES
	31 December 2023		31 December 2022	
	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership
Intesa Sanpaolo Holding International	18,765,747	100.0%	18,765,747	100.0%
	18,765,747	**100.0%**	**18,765,747**	**100.0%**

Each share has an equal proportion in the share capital of the Bank and its participating value in the share capital as well. The proportion of each share in the share capital of the Bank is determined on the basis of the number of the issued shares.

On 26 April 2021, General Assembly of the Bank reached a decision to withdraw from listing on the regulated market Zagreb Stock Exchange, all the listed shares, namely 19,074,769 ordinary shares with a nominal value of HRK 100.00, issued in dematerialised form and deposited in the Central Depository and Clearing Company Inc, under ticker PBZ-R-A, Bank's shares were delisted from regulated market Zagreb Stock Exchange on 7 May 2021. Due to the Decision to withdraw from listing on the regulated market Zagreb Stock Exchange, the Bank bought out shares, at a fair price (832,45 HRK), from all the Bank's shareholders who voted, at the Annual General Meeting against the Decision on the withdrawal of shares and who required from the Bank, that the Bank takes over their shares. During the delisting process the Bank redeemed in total 263,632 of own shares. Consequently, own shares were transferred to the main shareholder Intesa Sanpaolo Holding International. On 25 February 2022, General Assembly reached a decision to reduce share capital for the amount of treasury shares.

Notes to the financial statements (continued)

36 Share capital (continued)

b) Share premium

The Bank recognises share premium in an amount of EUR 208 million (31 December 2022: EUR 208 million) representing the excess of the paid-in amount over the nominal value of the issued shares.

c) Own shares held as collateral

As of 31 December 2023 the Bank hold 1,964 (31 December 2022: 1,964) of its own shares as collateral for loans to third parties.

d) Other reserves

Other reserves comprise legal, capital gains and treasury shares reserves.

Legal reserve

As required by the Companies Act, companies in Croatia are required to appropriate 5% of their annual net profit into legal reserves until they, together with capital reserves, reach 5% of issued share capital.

Capital gain/loss

Capital gain/loss is a result of transactions with treasury shares of the Bank in previous periods.

Treasury share reserve

As of 31 December 2022, due to the cancellation of shares process, treasury share reserve was transferred to retained earnings.

Translation reserves

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign subsidiaries. As at 31 December 2023 translation reserve amounted to EUR 1 million (2022: EUR 3 million) for the Group.

Other revaluation reserves

Other revaluation reserves include valuation reserve of tangible assets due to the change in the accounting criteria in the year 2017 for the disclosure and measurement of functional and investment property. The valuation reserve of tangible assets amounts to EUR 48 million for the Group (2022: EUR 43 million) and EUR 20 million for the Bank (2022: EUR 20 million).

Other reserves

The amount of other reserves for the Group includes statutory reserves of Intesa Sanpaolo Bank d.d. Slovenia which the Intesa Sanpaolo Bank d.d. Slovenia according to its Statute, creates until they achieve an amount which is fifteen times that of the Bank's registered capital stock. In each financial year, a part of the net profit that remained after any losses carried forward, legal reserves and reserves for own shares have been covered is allocated to statutory reserves.

Notes to the financial statements (continued)

36 Share capital (continued)

e) Fair value reserve

Fair value reserve includes unrealised gains and losses on changes in the fair value of financial assets measured at fair value through other comprehensive income, net of income tax.

f) Retained earnings

Retained profits are generally available to shareholders, subject to their approval.

During 2023 in respect to 2022 dividend was proposed. The amount of dividends distributed to equity holders during 2023 in respect of 2022 is EUR 10.08 per share. During 2022 in respect to 2021 dividend was proposed. The amount of dividends distributed to equity holders during 2022 in respect of 2021 is EUR 7.88 per share.

g) Non-controlling interest

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition, NCI in the amount of EUR 194 million (2022: EUR 159 million) relate to Intesa Sanpaolo Bank d.d. Slovenia and Intesa Sanpaolo Bank d.d. Bosnia and Herzegovina.

37 Contingent liabilities and commitments

Credit-related contingencies and commitments

Credit-related contingencies and commitments arise from various banking products, the primary purpose of which is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans and advances. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw funds on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly lower risk. Management has assessed that a provision of EUR 21 million for the Group and EUR 18 million for the Bank (2022: EUR 31 million and EUR 26 million respectively) is sufficient to cover risks due to the default of the respective counterparties (refer to Note 44 Financial risk management policies).

The aggregate amounts of outstanding guarantees, letters of credit and other commitments at the end of the year were as follows:

(in EUR million)

		GROUP		**BANK**
	2023	2022	2023	2022
Undrawn lending commitments	2,722	2,957	2,154	2,334
Performance guarantees	523	473	350	330
Domestic currency payment guarantees	299	223	179	187
Foreign currency payment guarantees	8	63	1	1
Domestic currency letter of credit	7	7	4	5
Foreign currency letters of credit	3	3	1	3
	3,562	**3,726**	**2,689**	**2,860**

38 Cash and cash equivalents

The table below presents an analysis of cash and cash equivalents for the purposes of the cash flows statement:

(in EUR million)

		GROUP		BANK	
	Note	2023	2022	2023	2022
Balances with Croatian National Bank	17	3,334	395	3,334	395
Cash and current accounts with banks	16	2,319	6,164	1,087	5,129
Loans and advances to banks with maturity of up to 90 days		823	706	670	607
		6,476	**7,265**	**5,091**	**6,131**

39 Managed funds for and on behalf of third parties

(in EUR million)

	GROUP		BANK	
	2023	2022	2023	2022
Assets under custody – investment and pension funds	7,429	6,501	6,566	5,759
Assets under custody	3,181	932	3,181	932
Assets under portfolio management	104	90	104	78
	10,777	**7,523**	**9,851**	**6,769**

The Group and the Bank provide custody services to banks and customers, including investment and pension funds. These assets are accounted for separately from those of the Group and kept off-balance sheet. The Group is compensated for its services by fees chargeable to the clients.

Funds under management in the obligatory pension fund managed by the Bank's associate PBZ Croatia Osiguranje d.d. amount to EUR 3,623 million as at 31 December 2023 (31 December 2022: EUR 3,041 million). These funds are held by a custody bank which is not a member of the Group.

Fees earned from custody services, assets under management in investment funds and portfolio management amounted to EUR 3 million for the Group and EUR 2 million for the Bank (2022: EUR 3 million for the Group and EUR 2 million for the Bank).

Notes to the financial statements (continued)

40 Leases

a) Leases as lessor

PBZ Leasing d.o.o. and Intesa Sanpaolo Bank d.d. Slovenia, both members of the PBZ Group, are engaged in providing finance and operating lease arrangements to its clients of various items of vehicles, vessels, real estate and equipment in its capacity of a lessor. Net investment in finance leases as at 31 December 2023 amounted to EUR 220 million (31 December 2022: EUR 171 million) which is included within loans and advances to customers (Note 21 Loans and advances to customers) in the Group financial statements.

The carrying value of leased property and equipment under operating lease as at 31 December 2023 amounted to EUR 54 million (31 December 2022: EUR 41 million) and are classified within property and equipment (Note 25 Property and equipment).

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are set out below:

Finance leases under IFRS 16

(in EUR million)

	2023	2022
Less than one year	77	67
Between one and two years	66	45
Between two and three years	51	33
Between three and four years	31	21
Between four and five years	14	11
More than five years	5	2
Gross investment in finance lease	**244**	**179**
Unearned finance income	(23)	(8)
Net investment in finance lease	**221**	**171**

Operating leases under IFRS 16

(in EUR million)

	2023	2022
Less than one year	7	4
Between one and two years	6	4
Between two and three years	7	3
Between three and four years	4	3
Between four and five years	3	2
More than five years	5	6
Total	**32**	**22**

Notes to the financial statements (continued)

40 Leases (continued)

b) Leases as lessee

The Group and the Bank leases a number of office premises. The leases typically run for a period of three to five years with the option to renew the lease after that time.

The Group and the Bank also lease IT equipment, These leases are short-term and/or leases of low value items. The Group and the Bank have elected not to recognize Right of use assets and Lease liabilities for these leases.

Information about leases for which the Group and the Bank are lessee is presented below:

Right-of-use

(in EUR million)

Group	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	**Total**
Balance at 1 January 2023	**25**	**1**	**-**	**5**	**31**
Depreciation charge of the year	(8)	-	(1)	(2)	**(11)**
Additions	8	-	3	3	**14**
Disposals	(1)	-	-	(1)	**(2)**
Balance at 31 December 2023	**24**	**1**	**2**	**5**	**32**
Balance at 1 January 2022	**29**	**-**	**1**	**7**	**37**
Depreciation charge of the year	(8)	-	(1)	(2)	**(11)**
Additions	5	1	-	1	**7**
Disposals	(1)	-	-	(1)	**(2)**
Balance at 31 December 2022	**25**	**1**	**-**	**5**	**31**

(in EUR million)

Bank	Land and buildings	Motor vehicles	Computer equipment	**Total**
Balance at 1 January 2023	**24**	**1**	**5**	**30**
Depreciation charge of the year	(7)	(1)	(2)	**(10)**
Additions	7	2	3	**12**
Disposals	(1)	-	(1)	**(2)**
Balance at 31 December 2023	**23**	**2**	**5**	**30**
Balance at 1 January 2022	**31**	**1**	**7**	**39**
Depreciation charge of the year	(7)	-	(2)	**(9)**
Additions	4	-	1	**5**
Disposals	(4)	-	(1)	**(5)**
Balance at 31 December 2022	**24**	**1**	**5**	**30**

Notes to the financial statements (continued)

40 Leases (continued)

b) Leases as lessee

Maturity analysis - Contractual undiscounted cash flows

(in EUR million)

Group	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	**Total**
Less than one year	8	-	1	2	**11**
Between one and five years	12	1	2	3	**18**
More than five years	3	-	-	-	**3**
Balance at 31 December 2023	**23**	**1**	**3**	**5**	**32**
Less than one year	8	-	1	2	**11**
Between one and five years	15	1	1	3	**20**
More than five years	3	-	-	-	**3**
Balance at 31 December 2022	**26**	**1**	**2**	**5**	**34**

(in EUR million)

Bank	Land and buildings	Motor vehicles	Computer equipment	**Total**
Less than one year	6	1	2	**9**
Between one and five years	16	2	3	**21**
More than five years	3	-	-	**3**
Balance at 31 December 2023	**25**	**3**	**5**	**33**
Less than one year	7	-	2	**9**
Between one and five years	16	-	3	**19**
More than five years	5	-	-	**5**
Balance at 31 December 2022	**28**	**-**	**5**	**33**

Notes to the financial statements (continued)

40 Leases (continued)

b) Leases as lessee

Amounts recognised in profit or loss

- under IFRS 16

(in EUR million)

Group	Land and buildings	Furniture and other equip-ment	**Total**
Interest on lease liabilities	1	-	**1**
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-	2	**2**
Balance at 31 December 2023	**1**	**2**	**3**
Interest on lease liabilities	1	-	**1**
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-	1	**1**
Balance at 31 December 2022	**1**	**1**	**2**

(in EUR million)

Bank	Land and buildings	**Total**
Interest on lease liabilities	1	**1**
Balance at 31 December 2023	**1**	**1**
Interest on lease liabilities	1	**1**
Balance at 31 December 2022	**1**	**1**

41 Related party transactions

The parent company of Privredna banka Zagreb and its subsidiaries is Intesa Sanpaolo Holding International which holds 100,0% of the Bank's share capital as at 31 December 2023 (100.0% as at 31 December 2022). The ultimate controlling party is Intesa Sanpaolo S.p.A, a bank incorporated in Italy.

The Bank considers that it has an immediate related party relationship with: its ultimate parent and its affiliates; other key shareholders and their affiliates; its subsidiaries and associates and the pension fund managed by its associate, PBZ Croatia Osiguranje d.d.; Supervisory Board members, Management Board members and other executive management (together "key management personnel"), in accordance with the International Accounting standard 24 "Related party Disclosures" ("IAS 24"). The Bank grants loans to or places deposits with related parties in the ordinary course of business.

The volumes of related party transactions during the year and outstanding balances at the year-end were as follows:

Notes to the financial statements (continued)

41 Related party transactions (continued)

(in EUR million)

Group	Key management personnel	Ultimate controlling party - Intesa Sanpaolo S.p.A	Associates	Other shareholders and their affiliates and affiliates of ultimate controlling party
Deposits and loans given				
Balance at 1 January 2023	**2**	**221**	**-**	**73**
Changes during the year	-	814	-	48
Balance at 31 December 2023	**2**	**1,035**	**-**	**121**
Interest income for the year ended 31 December 2023	**-**	**14**	**-**	**15**
Interest income for the year ended 31 December 2022	-	2	-	1
Deposits and loans received				
Balance at 1 January 2023	**6**	**398**	**7**	**18**
Changes during the year	(2)	11	(1)	1
Balance at 31 December 2023	**4**	**409**	**6**	**19**
Interest expense for the year ended 31 December 2023	**-**	**(12)**	**-**	**(1)**
Interest expense for the year ended 31 December 2022	(1)	(4)	-	-
Contingent liabilities and commitments at 31 December 2023	**-**	**23**	**-**	**-**
Contingent liabilities and commitments at 31 December 2022	1	26	-	1
Fees and other income for the year ended 31 December 2023	**-**	**2**	**1**	**5**
Fees and other income for the year ended 31 December 2022	-	3	1	5
Fees and other expense for the year ended 31 December 2023	**-**	**(2)**	**-**	**(8)**
Fees and other expense for the year ended 31 December 2022	-	(5)	-	(6)

Notes to the financial statements (continued)

41 Related party transactions (continued)

(in EUR million)

Bank	Key management personnel	Bank's subsidiaries	Ultimate controlling party - Intesa Sanpaolo S.p.A	Associates	Other shareholders and their affiliates and affiliates of ultimate controlling party
Deposits and loans given					
Balance at 1 January 2023	**1**	**155**	**23**	**-**	**1**
Changes during the year	-	(105)	844	-	45
Balance at 31 December 2023	**1**	**50**	**867**	**-**	**46**
Interest income for the year ended 31 December 2023	**-**	**5**	**8**	**-**	**13**
Interest income for the year ended 31 December 2022	-	1	1	-	-
Deposits and loans received					
Balance at 1 January 2023	**5**	**9**	**174**	**7**	**10**
Changes during the year	(2)	-	(39)	(1)	6
Balance at 31 December 2023	**3**	**9**	**135**	**6**	**16**
Interest expense for the year ended 31 December 2023	**-**	**-**	**(6)**	**-**	**(1)**
Interest expense for the year ended 31 December 2022	-	-	(3)	-	-
Contingent liabilities and commitments at 31 December 2023	**-**	**20**	**18**	**-**	**-**
Contingent liabilities and commitments at 31 December 2022	-	12	18	-	1
Fees and other income for the year ended 31 December 2023	**-**	**39**	**2**	**1**	**5**
Fees and other income for the year ended 31 December 2022	-	75	2	1	4
Fees and other expense for the year ended 31 December 2023	**-**	**(3)**	**(3)**	**-**	**(8)**
Fees and other expense for the year ended 31 December 2022	-	(3)	(4)	-	(5)

No provisions were recognised in respect of deposits and loans given to related parties as at 31 December 2023 (31 December 2022: nil).

Notes to the financial statements (continued)

41 Related party transactions (continued)

Annual key management remuneration:

	(in EUR million)	
		BANK
	2023	2022
Short-term benefits	**7**	**7**
- salaries paid for the current year	7	7
Long-term benefits	**2**	**2**
- paid during the current year in respect of earlier years	2	2
	9	**9**

Key management personnel include Management Board and senior executive directors as well as executive directors responsible for areas of strategic relevance. The total number of key management personnel of the Group as at 31 December 2023 was 44 (31 December 2022: 44).

Bonuses in 2023 were mostly paid in cash, while for 16 Risk takers bonuses also included share allocations on a deferred basis.

Share-based payments

Intesa Sanpaolo launched a long-term bonus scheme, in favour of executives holding key positions in the Group (so called Risk takers), aimed at achieving business plan objectives and increasing the value of the Intesa Sanpaolo Group.

This scheme entitles the key executives to a cash payment of variable incentive, split in cash and shares payment, where the share's payment is based on the price of entitled shares, if certain performance conditions are fulfilled. The fair value of services received from key executives is measured by reference to the fair value of the instrument granted which is based on the quoted market prices.

	Number of instruments held (in units)		The carrying amount of liabilities for cash-settled arrangements (in EUR million)	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Awards granted	267,776	342,852	1	1

Notes to the financial statements (continued)

42 Capital

The Bank maintains an actively managed capital base to cover risks in the business. The adequacy of the Bank's capital is monitored using among other measures, the rules and ratios established by the Regulation of the European parliament on prudential requirements for credit institutions and Croatian National Bank in supervising the Bank.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities, In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue capital securities.

For the purposes of capital adequacy computation the Bank choose to adopt the "static approach' which allows the bank to gradually include IFRS 9 impact in the common capital calculation as follows 5% in 2018, 15% in 2019, 30% in 2020, 50% in 2021 and 75% in 2022.

Regulatory capital and capital ratios according to European Bank Authority requirements and CNB national discretions, calculated for the Bank only (as of the date of issuance of these financial statements information on regulatory capital and risk-weighted assets and other risk elements is unaudited), are as follows:

Regulatory capital (unaudited)

	(in EUR million)	
		BANK
	2023	2022
Issued share capital	244	249
Share premium	208	208
Treasury shares (net of share premium on treasury shares)	-	-
Retained earnings (excluding profit for the period)	1,476	1,470
Accumulated other comprehensive income	15	6
Other reserves	22	17
Deductions in accordance with EBA regulations	(63)	(44)
Common Equity Tier 1 capital (unaudited)	**1,902**	**1,906**
Tier 1 capital	**1,902**	**1,906**
Total regulatory capital (unaudited)	**1,902**	**1,906**
Risk weighted assets and other risk elements (unaudited)	**6,734**	**6,950**
Common Equity Tier 1 capital ratio (unaudited)	28.24%	27.42%
Tier 1 (unaudited)	28.24%	27.42%
Total capital ratio (unaudited)	28.24%	27.42%

Notes to the financial statements (continued)

43 Fair values of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis.

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Investment securities measured at fair value through other comprehensive income are generally measured at fair value with the exception of some equity investments which are carried at cost less impairment given that their fair value cannot be reliably measured.

a) Financial instruments measured at fair value and fair value hierarchy

The determination of fair value of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and for this reason, when calculating the fair value of a financial asset or liability all material risks that affect them must be identified and taken into consideration.

When measuring fair values, the Bank takes into account the IFRS fair value hierarchy that reflects the significance of the inputs used in making the measurement. Each instrument is individually evaluated, The levels are determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The financial instruments carried at fair value have been categorised under the three levels of the IFRS fair value hierarchy as follows:

Level 1: Instruments valued using quoted (unadjusted) prices in active markets for identical assets or liabilities; these are instruments where the fair value can be determined directly from prices which are quoted in active, liquid markets.

- These instruments include: liquid debt and equity securities traded on liquid markets, and quoted units in investment funds.

Level 2: Instruments valued using valuation techniques using observable market data. These are instruments where the fair value can be determined by reference to similar instruments trading in active markets, or where a technique is used to derive the valuation but where all inputs to that technique are observable.

- These instruments include: less-liquid debt, equity securities and derivatives valued by a model which uses Level 1 inputs.

Level 3: Instruments valued using valuation techniques using market data which is not directly observable: these are instruments where the fair value cannot be determined directly by reference to market-observable information, and some other pricing technique must be employed. Instruments classified in this category have an element which is unobservable and which has a significant impact on the fair value.

- These instruments include: illiquid debt securities and illiquid equity securities.

Notes to the financial statements (continued)

43 Fair values of financial assets and liabilities (continued)

a) Financial instruments measured at fair value and fair value hierarchy (continued)

The following table presents an analysis of financial instruments carried at fair value by the level of hierarchy:

(in EUR million)

Group				2023				2022
	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	**Total**
Derivative assets	-	52	-	**52**	-	87	-	**87**
Total	**-**	**52**	**-**	**52**	**-**	**87**	**-**	**87**
Trading assets								
Government bonds	51	-	-	**51**	72	-	-	**72**
Total	**51**	**-**	**-**	**51**	**72**	**-**	**-**	**72**
Investment securities								
Government bonds and treasury bills	472	954	-	**1,426**	471	825	-	**1,296**
Bank's bonds	-	7	-	**7**	-	7	-	**7**
Other financial institutions bonds	50	-	-	**50**	49	-	-	**49**
Corporate bonds	-	6	-	**6**	-	5	-	**5**
Equities	16	1	-	**17**	15	1	-	**16**
Total	**538**	**968**	**-**	**1,506**	**535**	**838**	**-**	**1,373**
Financial assets	**589**	**1,020**	**-**	**1,609**	**607**	**925**	**-**	**1,532**
Derivative financial liabilities	-	33	-	**33**	-	3	-	**3**
Financial liabilities	**-**	**33**	**-**	**33**	**-**	**3**	**-**	**3**

Notes to the financial statements (continued)

43 Fair values of financial assets and liabilities (continued)

a) Financial instruments measured at fair value and fair value hierarchy (continued)

(in EUR million)

Bank	Level 1	Level 2	Level 3	2023 **Total**	Level 1	Level 2	Level 3	2022 **Total**
Derivative assets	-	22	-	**22**	-	39	-	**39**
Total	**-**	**22**	**-**	**22**	**-**	**39**	**-**	**39**
Trading assets								
Government bonds	51	-	-	**51**	72	-	-	**72**
Total	**51**	**-**	**-**	**51**	**72**	**-**	**-**	**72**
Investment securities								
Government bonds and treasury bills	216	268	-	**484**	259	793	-	**1,052**
Corporate bonds	-	4	-	**4**	-	3	-	**3**
Equities	5	-	-	**5**	4	-	-	**4**
Total	**221**	**272**	**-**	**493**	**263**	**796**	**-**	**1,059**
Financial assets	**272**	**294**	**-**	**566**	**335**	**835**	**-**	**1,170**
Derivative financial liabilities	-	29	-	**29**	-	1	-	**1**
Financial liabilities	**-**	**29**	**-**	**29**	**-**	**1**	**-**	**1**

Notes to the financial statements (continued)

43 Fair values of financial assets and liabilities (continued)

a) Financial instruments measured at fair value and fair value hierarchy (continued)

During 2023 and 2022, no transfers from Level 1 to Level 2 or from Level 2 to Level 1 occurred, as there were no changes to the methodology used in determining levels of the fair value hierarchy, while the market activity of financial instruments in the Group’s portfolios remained unchanged.

The existence of published prices quotations in an active market is the best evidence of fair value and these quoted prices (Effective Market Quotes) shall therefore be used as the primary method for measuring financial assets and liabilities in the trading portfolio. If the market for a financial instrument is not active, the Group determines the fair value by using a valuation technique. Valuation techniques include:

- using market values which are indirectly connected to the instrument being measured, deriving from products with similar risk characteristics (Comparable Approach);
- valuations conducted using (even only in part) inputs not deriving from parameters observable on the market, for which estimates and assumptions formulated by the assessor are used (Mark-to-Model).

Given the uncertainties of the domestic market, primarily characterised by low liquidity where market conditions do not show active trading but rather inactive, the Group primarily uses valuation techniques based on the following principles:

- used yield curves are created from interest rate quotations observed on the market;
- an appropriate yield curve (the one that is associated with the same currency in which the security, whose price is modelled, is denominated) is used in discounting of all the security's cash flows in order to determine its present value;
- in determining the fair value of bonds issued by corporate issuers and municipality bonds, the Group additionally uses the spreads associated with the internal credit rating of the issuer, which is then added to the yield curve for valuation thus capturing credit risk and various other counterparty related risks. Estimates for unobservable input was 4.15%. Significant increases in those inputs would result in lower fair values, while significant reduction would result in higher fair values. Considering the relatively small size of the financial instruments classified as Level 3, changing one or more of the assumptions would have insignificant effects on the overall financial statements.

Notes to the financial statements (continued)

43 Fair values of financial assets and liabilities (continued)

b) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value for the Group and the Bank and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

(in EUR million)

Group	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2023					
Assets					
Cash and current accounts with banks	-	2,155	198	**2,353**	**2,353**
Balances with CNB	-	3,334	-	**3,334**	**3,334**
Loans and advances to banks	-	1,557	286	**1,843**	**1,834**
Loans and advances to customers	-	1,517	10,260	**11,777**	**11,907**
Investment securities measured at amortised cost	142	-	107	**249**	**263**
Liabilities					
Current accounts and deposits from banks	-	177	-	**177**	**177**
Current accounts and deposits from customers	-	17,225	-	**17,225**	**17,258**
Interest-bearing borrowings and other financial liabilities	-	610	-	**610**	**653**
Senior non-preferred and subordinated debt	-	213	-	**213**	**207**
31 December 2022					
Assets					
Cash and current accounts with banks	-	6,164	-	**6,164**	**6,164**
Balances with CNB	-	395	-	**395**	**395**
Loans and advances to banks	-	960	52	**1,012**	**1,012**
Loans and advances to customers	-	2,904	8,423	**11,327**	**11,141**
Investment securities measured at amortised cost	-	116	122	**238**	**267**
Liabilities					
Current accounts and deposits from banks	-	322	-	**322**	**322**
Current accounts and deposits from customers	-	16,834	-	**16,834**	**16,816**
Interest-bearing borrowings and other financial liabilities	-	681	-	**681**	**650**
Senior non-preferred and subordinated debt	-	135	-	**135**	**135**

Notes to the financial statements (continued)

43 Fair values of financial assets and liabilities (continued)

b) Financial instruments not measured at fair value (continued)

(in EUR million)

Bank	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2023					
Assets					
Cash and current accounts with banks	-	1,087	-	**1,087**	**1,087**
Balances with CNB	-	3,334	-	**3,334**	**3,334**
Loans and advances to banks	-	1,489	32	**1,521**	**1,507**
Loans and advances to customers	-	969	7,188	**8,157**	**8,271**
Investment securities measured at amortised cost	121	-	107	**228**	**243**
Liabilities					
Current accounts and deposits from banks	-	149	-	**149**	**149**
Current accounts and deposits from customers	-	12,813	-	**12,813**	**12,839**
Interest-bearing borrowings and other financial liabilities	-	404	-	**404**	**438**
Senior non-preferred and subordinated debt	-	140	-	**140**	**135**
31 December 2022					
Assets					
Cash and current accounts with banks	-	5,129	-	**5,129**	**5,129**
Balances with CNB	-	395	-	**395**	**395**
Loans and advances to banks	-	719	20	**739**	**739**
Loans and advances to customers	-	1,865	6,033	**7,898**	**7,699**
Investment securities measured at amortised cost	116	-	122	**238**	**267**
Liabilities					
Current accounts and deposits from banks	-	224	-	**224**	**224**
Current accounts and deposits from customers	-	12,694	-	**12,694**	**12,679**
Interest-bearing borrowings and other financial liabilities	-	451	-	**451**	**434**
Senior non-preferred and subordinated debt	-	135	-	**135**	**135**

Notes to the financial statements (continued)

43 Fair values of financial assets and liabilities (continued)

b) Financial instruments not measured at fair value (continued)

The following methods and assumptions have been made in estimating the fair value of financial instruments:

- There are no significant differences between carrying value and fair value of cash and current accounts with banks and balances with the Croatian National Bank given the short maturity of such assets.
- Loans and advances to banks and customers are presented net of impairment allowance. The estimated fair value of loans and advances represents the discounted amount of the estimated future cash flows expected to be received. Expected future cash flows are discounted at current market rates. Valuation of performing and non-performing loans includes estimation and is therefore classified as Level 3 in fair value hierarchy. Expected future impairment losses are not taken into account. The fair value of debt securities classified as loans and receivables, representing Croatian Government bonds, is measured using valuation techniques based on the yield curves created from interest rate quotations observed on the market and are consequently classified as Level 2 in the fair value hierarchy, while fair value of other debt securities classified as loans and receivables is measured using spreads associated with internal credit ratings of the issuers and these securities are classified as Level 3 in the fair value hierarchy.
- The estimated fair value of fixed-interest term deposits is based on the expected cash flows discounted using current market rates. For demand deposits and deposits with no defined maturity, the fair value is determined to be the amount payable on demand. The value of customer relationships has not been taken into account. Deposits and loans received are classified as Level 2 in the fair value hierarchy since the parameters used in valuation are market observable.
- The majority of interest-bearing borrowings carry floating interest rates which are linked to market and repriced regularly. As such, the management believes that their carrying values approximate their fair values.

44 Financial risk management policies

This section provides details of the Group's exposure to risks and describes the methods used by the management to identify, measure and manage risks. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and equity price risk.

An integrated system of risk management has been established at the Group level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Group and monitoring their implementation. With particular reference to risk taking preferences, the Group defines its risk appetite through Risk Appetite Framework (RAF), i.e. set of strategic key limits ensuring stability of the Group in the upcoming period and beyond.

Accepted management principles of risk management have been implemented in all subsidiaries.

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk

The Group is subject to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group deals with counterparties of good credit standing, and when appropriate, obtains collateral.

The Group's primary credit risk exposure arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the statement of financial position. In addition, the Group is exposed to off-balance-sheet credit risk through commitments to extend credit and guarantees issued – as disclosed in Note 35 Provisions.

Lending commitments, including those based on guarantees issued by the Group that are contingent upon customers maintaining specific standards (including the solvency position of customers not worsening), represent liabilities that can be revoked, Irrevocable liabilities are based on undrawn but approved loans and approved overdrafts because these liabilities are the result of terms determined by loan contracts.

Guarantees and approved letters of credit that commit the Group to make payments on behalf of customers in the event of a specific act carry the same credit risk as loans. Standby letters of credit, which represent written guarantees of the Group in a client's name such that a third party can withdraw funds up to the preapproved limit, are covered by collateral, being the goods for which they were issued. The credit risk for this type of product is significantly lower than for direct loans.

Exposure to credit risk has been managed in accordance with the Group's policies and with the regulatory requirements of the Croatian National Bank. Credit exposures to portfolios and individual group exposures are reviewed on a regular basis against the limits set. Breaches are reported to the appropriate bodies and personnel within the Bank authorised to approve them. Any substantial increases in credit exposure are authorised by the Credit Committee. The Credit Risk Governance Committee monitors changes in the credit-worthiness of credit exposures and reviews them for any proposed expected credit losses. Credit risk assessment is continuously monitored and reported, thus enabling an early identification of increase in credit risk or default in the credit portfolio. The Group continually applies prudent methods and models used in the process of credit risk assessment.

The Group is also continuously developing internal models compliant with an internal ratings-based approach ("IRB"), as prescribed by the Capital Requirement Regulation (EU Regulation 575/2013) and supplementing legislation, in order to quantify:

- default risk expressed in terms of internal rating which is periodically assigned to corporate and retail customers and quantified as probability of default (PD models);
- loss given default as an estimate of potential losses in the event of default, given the characteristics of the transaction and present collateral (LGD models).

Internal models are deeply embedded into credit processes and underwriting policies where they determine characteristics of the transaction such as lending limit, required collateral and price as well as an appropriate decision level within an internal scheme of delegation of powers. Furthermore, internal models are also used for calculation of an adequate level of internal capital (ICAAP) and within the stress testing framework.

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

For the purpose of measuring the Expected Credit Loss, the Group aligned its macroeconomic forecasts with the indications. The table below shows the scenarios generated and used to measure ECL.

		Favourable scenario			Baseline scenario			Adverse scenario	
Macroeconomic indicator	2024	2025	2026	2024	2025	2026	2024	2025	2026
CPI y/y (average) %	3.9	2.3	2.2	3.7	2.1	2.0	3.2	1.6	1.5
Real GDP y/y %	3.6	3.6	3.6	2.6	2.6	2.6	0.3	0.3	0.3
Euribor 6M (average) %	4.4	4.1	3.2	3.6	3.1	2.4	3.6	2.6	2.1
Personal expenditure (%)	3.5	4.0	4.0	2.5	3.5	3.5	0.0	1.0	1.0
Wages	2.5	3.5	3.5	1.7	2.4	2.2	(0.5)	0.5	0.5

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Maximum exposure to credit risk

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 allowance before the effect of mitigation through collateral agreements.

(in EUR million)

	Note	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Cash and current accounts with banks (excluding cash in hand)	16	1,182	5,137	160	4,330
Balances with the Croatian National bank	17	3,334	395	3,334	395
Financial assets held for trading (excluding equities and investments in funds)	18	51	72	51	72
Derivative financial assets	19a, 19b	52	87	22	39
Fair value changes of the hedged items in portfolio hedge of interest rate risk	19c	(5)	(65)	8	(39)
Loans and advances to banks	20	1,834	1,042	1,507	739
Loans and advances to customers	21	11,907	11,141	8,271	7,699
Investment securities (w/o equities)	22	1,746	1,619	1,384	1,319
Other assets (excluding prepaid expenses, foreclosed assets, receivables in course of collection, advance payments and receivables from tax authority (excluding income tax))	24	3	4	3	2
Total		**20,104**	**19,432**	**14,740**	**14,556**
Contingent liabilities and commitments	37	3,562	3,726	2,689	2,860
Total credit risk exposure		**23,666**	**23,158**	**17,429**	**17,416**

Where financial instruments are recorded at fair value, the amounts presented above represent the credit risk exposure at the reporting date but not the maximum risk exposure that could arise in the future as result of changes in fair values.

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Collateral held and other credit enhancements

In terms of credit risk mitigation, the Group's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. The Group approves a facility if there are two independent and viable repayment sources – cash flows generated by the borrower's activity and security instruments/collateral. The main types of collateral obtained are as follows:

- cash deposit for which the agreement stipulates that the Bank shall have the right to use the cash deposit for debt recovery and that the depositor may not use this deposit until the final settlement of all obligations under the approved facility;
- guarantee of the Government of the Republic of Croatia;
- pledge of securities issued by the Republic of Croatia or the Croatian National Bank;
- irrevocable guarantee or super guarantee issued by a domestic or foreign bank with adequate credit rating with the conditions of "payable on first demand" or "without objections" or similar;
- credit insurance policy issued by the Croatian Bank for Reconstruction and Development;
- credit insurance policy issued by an appropriate insurance company in accordance with the internal regulations of the Bank;
- pledge of units in investment funds managed by Eurizon;
- mortgage/lien/fiduciary transfer of ownership of property, movable property or securities of other issuers.

In general, a quality security instrument is an instrument with characteristics that provide a reasonable estimate of the Group'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 provision for expected credit losses.

The majority of housing loans are secured by mortgages over residential property. A significant part of the corporate portfolio is secured by mortgages over different types of commercial property.

The Republic of Croatia has in the past issued guarantees for the repayment of loans and advances to qualifying customers in certain key industries which were provided for by the state budget. In addition, the Republic of Croatia has issued guarantees for a certain number of the Bank's loans and off-balance-sheet credit risks.

The support and guarantee of the Republic of Croatia was taken into consideration when determining the level of impairment loss required against loans and off-balance-sheet credit risk exposure to certain entities.

Total Group balance-sheet and off-balance-sheet credit risks guaranteed by the Republic of Croatia or repayable from the state budget amounted to EUR 924 million (2022: EUR 777 million). Exposure to Croatian municipalities is included in the above analysis, The following table sets out the appraised value of collateral for loans and receivables to customers.

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Collateral held and other credit enhancements (continued)

Analysis by type of collateral for loans and advances to customers at amortized cost

(in EUR million)

Group	2023 Net loans	2023 Appraised value of collateral	2022 Net loans	2022 Appraised value of collateral
Residential Real Estate	3,285	6,091	2,868	5,380
Commercial Real Estate	1,260	4,958	1,477	4,645
Other Real Estate	165	328	241	974
Real Estate	**4,710**	**11,377**	**4,586**	**10,999**
First Rate Guarantees	1,049	1,844	952	1,711
Central Government	833	1,024	791	1,012
Local Government	33	35	28	30
Banks	183	785	133	669
Other Guarantees	307	564	255	494
Guarantees	**1,356**	**2,408**	**1,207**	**2,205**
Loan Insurance	148	184	161	200
Life Insurance	256	275	248	265
Deposits	50	109	57	131
Shares	9	11	5	8
Other	362	660	204	476
Other Collaterals	**825**	**1,239**	**675**	**1,080**
Total	**6,891**	**15,024**	**6,468**	**14,284**
Unsecured loans	5,021	-	4,680	-
Total	**11,912**	**15,024**	**11,148**	**14,284**

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

(in EUR million)

Bank	Net loans	2023 Appraised value of collateral	Net loans	2022 Appraised value of collateral
Residential Real Estate	2,317	4,155	1,944	3,564
Commercial Real Estate	727	1,935	851	2,085
Other Real Estate	159	316	125	271
Real Estate	**3,203**	**6,406**	**2,920**	**5,920**
First Rate Guarantees	826	852	763	803
Central Government	769	779	722	759
Local Government	33	35	28	30
Banks	24	38	13	14
Other Guarantees	154	172	111	141
Guarantees	**980**	**1,024**	**874**	**944**
Loan Insurance	47	74	45	76
Life Insurance	39	47	44	52
Deposits	41	97	49	121
Shares	9	11	3	5
Other	103	274	151	337
Other Collaterals	**239**	**503**	**292**	**591**
Total	**4,422**	**7,933**	**4,086**	**7,455**
Unsecured loans	3,850	-	3,615	-
Total	**8,272**	**7,933**	**7,701**	**7,455**

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Refinanced loans

Loan refinancing is done for clients where the focus of the business relationship has shifted from regular payment to mitigating losses on lending exposure at a stage when legal action for mitigating losses is not yet needed. The goal is timely identification of clients where refinancing would enable them to continue in business and to mitigate or prevent further losses for the Group.

Refinancing activities are based on cooperation with other organisational parts of the Group, which identify clients/exposures that are the subject of refinancing and include: supporting of sales staff in defining the appropriate refinancing strategy, analysing refinancing applications, suggesting measures and making recommendations for refinancing, monitoring progress, monitoring the portfolio, assessing the level of impairment and the Group's proposing measures that would improve collateral coverage in order to strengthen its position in the collection of receivables.

All restructurings and rescheduling have been marked with forbearance flag in line with relevant regulation. The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification effect suffered by the Bank and the Group.

(in EUR million)

		GROUP		**BANK**
	2023	2022	2023	2022
Amortised cost of financial assets modified during the period	98	112	91	103
Net modification gain	3	3	3	3

The following tables provide a summary of the Bank's and the Group's forborne assets.

(in EUR million)

Group 2023		Performing			Non - performing	
	Modification	Refinancing	**Total**	Modification	Refinancing	**Total**
Loans and advances						
Non-financial corporations	57	2	**59**	53	2	**55**
Households	5	13	**18**	14	32	**46**

(in EUR million)

Group 2022		Performing			Non - performing	
	Modification	Refinancing	**Total**	Modification	Refinancing	**Total**
Loans and advances						
Non-financial corporations	74	3	**77**	57	3	**60**
Households	12	16	**28**	17	39	**56**

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Refinanced loans (continued)

(in EUR million)

Bank 2023	Performing			Non - performing		
	Modification	Refinancing	**Total**	Modification	Refinancing	**Total**
Loans and advances						
Non-financial corporations	51	1	**52**	49	2	**51**
Households	2	12	**14**	9	26	**35**

(in EUR million)

Bank 2022	Performing			Non - performing		
	Modification	Refinancing	**Total**	Modification	Refinancing	**Total**
Loans and advances						
Non-financial corporations	58	1	**59**	49	3	**52**
Households	4	13	**17**	13	33	**46**

The following tables provide a summary of the Bank's and the Group's forborne assets divided by gross exposure and ECL allowance.

(in EUR million)

Group 2023	Gross amount of forborne exposures			ECL allowance		
	Performing	Non-performing	Total	Performing	Non-performing	Total
Loans and advances						
Non-financial corporations	59	55	**114**	(9)	(30)	**(39)**
Households	18	46	**64**	(2)	(29)	**(31)**

(in EUR million)

Group 2022	Gross amount of forborne exposures			ECL allowance		
	Performing	Non-performing	Total	Performing	Non-performing	Total
Loans and advances						
Non-financial corporations	77	60	**137**	(11)	(31)	**(42)**
Households	28	56	**84**	(3)	(32)	**(35)**

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Refinanced loans (continued)

(in EUR million)

Bank 2023	Gross amount of forborne exposures			ECL allowance		
	Performing	Non-performing	Total	Performing	Non-performing	Total
Loans and advances						
Non-financial corporations	52	51	**103**	(8)	(26)	**(34)**
Households	14	35	**49**	(1)	(21)	**(22)**

(in EUR million)

Bank 2022	Gross amount of forborne exposures			ECL allowance		
	Performing	Non-performing	Total	Performing	Non-performing	Total
Loans and advances						
Non-financial corporations	59	52	**111**	(9)	(27)	**(36)**
Households	17	46	**63**	(1)	(24)	**(25)**

The Group is also continuously improving collection and workout processes (problem loan management framework) by introducing new application support boosting process efficiency and developing new collection strategies in the form of tailor-made products and offers to retail customers, refinancing standards and support for corporate clients, and finally sale of assets where further collection is deemed immaterial and therefore not appropriate/efficient to be executed within the Group.

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Credit risk of financial assets and loan commitments and financial guarantee contracts is presented using internal classifications for the credit risk.

The Group internally classifies the loan exposures into the following risk categories:

- Standard monitoring: the client is timely servicing its liabilities and there and the exposure is not classified as credit-impaired;
- Special monitoring: clients are analysed in detail within Proactive Credit Management (PCEM) office where individual client's strategies have been defined, implemented and their execution is closely monitored, In addition to corporate clients, Bank adopted monitoring of retail clients on portfolio level within PCEM office;
- Doubtful: exposures to borrowers being effectively insolvent (although not yet legally) or in comparable status, regardless of any loss forecasts made by the Group;
- Unlikely to pay: exposures to borrowers which are experiencing financial or economic difficulties that are expected to be overcome in a reasonable period of time;
- Past due impaired: exposures other than those classified as unlikely to pay or doubtful that are past due for more than 90 days on a continuous basis above the established threshold.

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in EUR million)

Group **2023**	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit – impaired	**Total**
Loans and advances to banks at amortised cost					
Standard monitoring	1,834	-	-	-	**1,834**
Doubtful	-	-	1	-	**1**
Loss allowance	-	-	(1)	-	**(1)**
Carrying amount	**1,834**	**-**	**-**	**-**	**1,834**
Loans and advances to customers at amortised cost					
Standard monitoring	10,774	961	-	3	**11,738**
Special monitoring	-	192	-	-	**192**
Past due impaired	-	-	26	-	**26**
Unlikely to pay	-	-	147	1	**148**
Doubtful	-	-	219	2	**221**
Loss allowance	(86)	(75)	(249)	(3)	**(413)**
Carrying amount	**10,688**	**1,078**	**143**	**3**	**11,912**
2022					
Loans and advances to banks at amortised cost					
Standard monitoring	1,012	-	-	-	**1,012**
Doubtful	-	-	1	-	**1**
Loss allowance	-	-	(1)	-	**(1)**
Carrying amount	**1,012**	**-**	**-**	**-**	**1,012**
Loans and advances to customers at amortised cost					
Standard monitoring	10,330	429	-	3	**10,762**
Special monitoring	29	315	-	-	**344**
Past due impaired	-	-	33	-	**33**
Unlikely to pay	-	-	183	1	**184**
Doubtful	-	-	221	3	**224**
Loss allowance	(85)	(67)	(244)	(3)	**(399)**
Carrying amount	**10,274**	**677**	**193**	**4**	**11,148**

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in EUR million)

Bank **2023**	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit – impaired	**Total**
Loans and advances to banks at amortised cost					
Standard monitoring	1,508	-	-	-	**1,508**
Loss allowance	(1)	-	-	-	**(1)**
Carrying amount	**1,507**	**-**	**-**	**-**	**1,507**
Loans and advances to customers at amortised cost					
Standard monitoring	7,346	743	-	3	**8,092**
Special monitoring	-	154	-	-	**154**
Past due impaired	-	-	15	-	**15**
Unlikely to pay	-	-	126	1	**127**
Doubtful	-	-	164	2	**166**
Loss allowance	(59)	(43)	(178)	(2)	**(282)**
Carrying amount	**7,287**	**854**	**127**	**4**	**8,272**
2022					
Loans and advances to banks at amortised cost					
Standard monitoring	740	-	-	-	**740**
Loss allowance	(1)	-	-	**-**	**(1)**
Carrying amount	**739**	**-**	**-**	**-**	**739**
Loans and advances to customers at amortised cost					
Standard monitoring	7,069	305	-	3	**7,377**
Special monitoring	29	225	-	-	**254**
Past due impaired	-	-	21	-	**21**
Unlikely to pay	-	-	155	1	**156**
Doubtful	-	-	170	3	**173**
Loss allowance	(57)	(40)	(180)	(3)	**(280)**
Carrying amount	**7,041**	**490**	**166**	**4**	**7,701**

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in EUR million)

Group **2023**	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	**Total**
Debt investment securities at amortised cost				
Standard monitoring	239	1	-	**240**
Special monitoring	-	29	-	29
Loss allowance	-	(6)	-	**(6)**
Carrying amount	**239**	**24**	**-**	**263**
Debt investment securities at FVOCI				
Standard monitoring	1,483	-	-	**1,483**
Carrying amount	**1,483**	**-**	**-**	**1,483**
Loan commitments				
Standard monitoring	2,440	225	-	**2,665**
Special monitoring	-	49	-	**49**
Past due impaired	-	-	1	**1**
Unlikely to pay	-	-	7	**7**
Doubtful	-	-	1	**1**
Loss allowance	(3)	(2)	(3)	**(8)**
Carrying amount	**2,437**	**272**	**6**	**2,715**
Financial guarantee contracts				
Standard monitoring	723	46	-	**769**
Special monitoring	-	49	-	**49**
Unlikely to pay	-	-	18	**18**
Doubtful	-	-	3	**3**
Loss allowance	(2)	(1)	(10)	**(13)**
Carrying amount	**721**	**94**	**11**	**826**

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in EUR million)

Group **2022**	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	**Total**
Debt investment securities at amortised cost				
Standard monitoring	221	-	-	**221**
Special monitoring	-	50	-	**50**
Loss allowance	-	(4)	-	**(4)**
Carrying amount	**221**	**46**	**-**	**267**
Debt investment securities at FVOCI				
Standard monitoring	1,353	-	-	**1,353**
Loss allowance	(1)	-	-	**(1)**
Carrying amount	**1,352**	**-**	**-**	**1,352**
Loan commitments				
Standard monitoring	2,868	48	-	**2,916**
Special monitoring	7	20	-	**27**
Past due impaired	-	-	1	**1**
Unlikely to pay	-	-	10	**10**
Doubtful	-	-	1	**1**
Loss allowance	(5)	(2)	(4)	**(11)**
Carrying amount	**2,870**	**66**	**8**	**2,944**
Financial guarantee contracts				
Standard monitoring	706	13	-	**719**
Special monitoring	3	17	-	**20**
Unlikely to pay	-	-	25	**25**
Doubtful	-	-	7	**7**
Loss allowance	(2)	(1)	(17)	**(20)**
Carrying amount	**707**	**29**	**15**	**751**

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in EUR million)

Bank **2023**	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	**Total**
Debt investment securities at amortised cost				
Standard monitoring	219	1	-	**220**
Special monitoring	-	29	-	**29**
Loss allowance	-	(6)	-	**(6)**
Carrying amount	**219**	**24**	**-**	**243**
Debt investment securities at FVOCI				
Standard monitoring	1,141	-	-	**1,141**
Carrying amount	**1,141**	**-**	**-**	**1,141**
Loan commitments				
Standard monitoring	1,903	197	-	**2,100**
Special monitoring	-	47	-	**47**
Past due impaired	-	-	1	**1**
Unlikely to pay	-	-	5	**5**
Doubtful	-	-	1	**1**
Loss allowance	(2)	(2)	(2)	**(6)**
Carrying amount	**1,901**	**242**	**5**	**2,148**
Financial guarantee contracts				
Standard monitoring	425	41	-	**466**
Special monitoring	-	48	-	**48**
Unlikely to pay	-	-	18	**18**
Doubtful	-	-	3	**3**
Loss allowance	(1)	(1)	(10)	**(12)**
Carrying amount	**424**	**88**	**11**	**523**

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in EUR million)

Bank **2022**	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	**Total**
Debt investment securities at amortised cost				
Standard monitoring	221	-	-	**221**
Special monitoring	-	50	-	**50**
Loss allowance	-	(4)	-	**(4)**
Carrying amount	**221**	**46**	**-**	**267**
Debt investment securities at FVOCI				
Standard monitoring	1,053	-	-	**1,053**
Loss allowance	(1)	-	-	**(1)**
Carrying amount	**1,052**	**-**	**-**	**1,052**
Loan commitments				
Standard monitoring	2,268	29	-	**2,297**
Special monitoring	7	20	-	**27**
Past due impaired	-	-	1	**1**
Unlikely to pay	-	-	8	**8**
Doubtful	-	-	1	**1**
Loss allowance	(3)	(1)	(4)	**(8)**
Carrying amount	**2,272**	**48**	**6**	**2,326**
Financial guarantee contracts				
Standard monitoring	469	5	-	**474**
Special monitoring	3	17	-	**20**
Unlikely to pay	-	-	25	**25**
Doubtful	-	-	7	**7**
Loss allowance	(1)	(1)	(16)	**(18)**
Carrying amount	**471**	**21**	**16**	**508**

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information. Criteria for determining significant increase in credit risk are defined for the purpose of proper allocation of performing exposures in "Stage 1" or "Stage 2".

Regarding the monitoring of credit quality, and in line with the standard and guidelines of the supervisory body on the way of applying accounting standards for larger institutions, efforts have been made in conducting the timely credit quality analysis of each individual credit relationship (both in the form of card exposure and in the form of credit exposure) for the purpose of identifying any "significant deterioration" from the date of initial recognition and the consequent need for classification in Stage 2, as well as the conditions for returning to Stage 1 from Stage 2. In other words, the elected choice, for each case separately and for each reporting date, implies a comparison of the credit quality of the financial instrument at the time of valuation and at the time of issuance or purchase with the purpose of determining whether the criteria for classification to Stage 2 have been met.

Credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's modelling, one of the following criteria is met:

- Probability of default at reporting date increased significantly in relation to the probability of default at initial recognition of the financial instrument;
- Clients that are under special monitoring treatment (PCEM);
- Eventual presence of due amount which remains overdue over 30 days (based on materiality threshold);
- Existence of "forbearance" measures;
- Finally, certain indicators of the internal credit risk tracking system are considered for the purpose of transition between "Stages" where appropriate.

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment

Forward looking information

The measurement of the financial assets also reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. In order to take into account, the forward looking data and the macroeconomic scenarios that the Group could encounter, it was decided to adopt, as further detailed in the text below, the so-called „Most likely scenario + add on" approach.

The inclusion of "forward looking" factors, particularly macroeconomic scenarios, is absolutely important element for estimating expected losses. In relation to different options considered, the Group has decided to adopt the approach representing the so-called "Most likely scenario + Add-on" which, for the purpose of calculating expected credit loss (ECL) and "stage assignment", implies taking into account the loss by credits set for the baseline scenario, with the attributed add-on aimed at reflecting the effects resulting from the possibility of the realisation of alternative of macroeconomic scenarios.

According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario ("Most Likely") and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes. The macroeconomic scenario is determined by the Group based on adjusted publicly available information.

Modification of financial asset

In some cases, during the lifetime of these financial assets, and of loans in particular, the original contractual conditions may be subsequently modified by the parties to the contract. When the contractual clauses are subject to change during the lifetime of an instrument, it is necessary to verify whether the original asset should continue to be recognised in the balance sheet or whether, instead, the original instrument needs to be derecognised and a new financial instrument needs to be recognised. In general, changes to a financial asset lead to its derecognition and the recognition of a new asset when they are "substantial". The assessment of the "substantial nature" of the change must be made using both qualitative and quantitative information.

The qualitative and quantitative analyses aimed at defining the "substantial nature" of contractual changes made to a financial asset must therefore consider:

- the purposes for which the changes were made: e.g. renegotiations for commercial reasons and forbearance measures due to financial difficulties of the counterparty:
    - o the former, aimed at "retaining" the customer, involve a borrower that is not in financial difficulty,
    - o the latter, carried out for "reasons of credit risk" (forbearance measures), relate to the bank's attempt to maximise the recovery of the cash flows of the original loan.
- the presence of specific triggers that affect the contractual characteristics and/or cash flows of the financial instrument.

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables: probability of default (PD), loss given default (LGD) and exposure at default (EAD), while for stage 2 exposures remaining maturity and discounting rate should be given as well.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD, Lifetime ECL (stage 2 exposures) is defined as the expected present value measure of losses that arise if a borrower defaults on their obligation throughout the life of financial instrument. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD properly discounted to the reporting date.

The following definitions apply for PD, LGD and EAD:

- PD (Probability of Default): likelihood of migrating from performing to non-performing status over the period of one year, The PD factor is typically quantified through the rating, In the Group, the PD values are derived from internal rating models where available.
- LGD (Loss Given Default): percentage loss in the event of default, LGD rates are derived from internally developed, collection models.
- EAD (Exposure At Default) or credit equivalent: amount of the exposure at the time of default.

The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

In November 2023 the Bank and the Group made regular annual re-estimation of overall IFRS9 parameters following parent bank's methodological approach, out of which the following might be outlined: 1) update of historical time series; 2) inclusion of new macroeconomic scenarios via internal macro models or via EBA tool; 3) implementation of 3-fold increase as additional stage 2 criterion 4) upgrade of sovereign rating based on parent company model which anticipated improvement in sovereign risk and 5) revision of IFRS9 managerial overlays.

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

The following tables present reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

(in EUR million)

Group					2023					2022
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit - impaired	**Total**	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit - impaired	**Total**
Loans and advances to customers at amortised cost										
Balance at 1 January	**88**	**68**	**240**	**3**	**399**	**87**	**70**	**231**	**3**	**391**
Transfer to 12-month ECL	28	(15)	(13)	-	**-**	19	(15)	(4)	-	**-**
Transfer to lifetime ECL not credit-impaired	(5)	13	(8)	-	**-**	(3)	12	(9)	-	**-**
Transfer to lifetime ECL credit – impaired	-	(5)	5	-	**-**	(1)	(9)	10	-	**-**
Net remeasurement of loss allowance	(20)	9	39	-	**28**	(3)	26	46	-	**69**
Financial assets that have been derecognised	(8)	(6)	(21)	-	**(35)**	(8)	(10)	(40)	-	**(58)**
Write-offs	-	-	(9)	-	**(9)**	-	-	(5)	-	**(5)**
Changes in models/risk parameters	9	10	5	-	**24**	(3)	(6)	11	-	**2**
Foreign exchange and other movements	6	-	-	-	**6**	-	-	-	-	**-**
Balance at 31 December	**98**	**74**	**238**	**3**	**413**	**88**	**68**	**240**	**3**	**399**

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

(in EUR million)

Bank					2023					2022
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit - impaired	**Total**	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit - impaired	**Total**
Loans and advances to customers at amortised cost										
Balance at 1 January	**59**	**37**	**181**	**3**	**280**	**59**	**48**	**171**	**3**	**281**
Transfer to 12-month ECL	22	(10)	(12)	-	**-**	13	(10)	(3)	-	**-**
Transfer to lifetime ECL not credit-impaired	(4)	10	(6)	-	**-**	(1)	8	(7)	-	**-**
Transfer to lifetime ECL credit – impaired	-	(3)	3	-	**-**	(1)	(7)	8	-	**-**
Net remeasurement of loss allowance	(22)	4	23	-	**5**	(8)	12	31	-	**35**
Financial assets that have been derecognised	(3)	(3)	(11)	-	**(17)**	(4)	(8)	(25)	-	**(37)**
Write-offs	-	-	(6)	-	**(6)**	-	-	(3)	-	**(3)**
Changes in models/risk parameters	6	6	3	-	**15**	1	(6)	9	-	**4**
Foreign exchange and other movements	5	-	-	-	**5**	-	-	-	-	**-**
Balance at 31 December	**63**	**41**	**175**	**3**	**282**	**59**	**37**	**181**	**3**	**280**

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

(in EUR million)

Group **2023**	12-month ECL	**Total**
Debt investment securities at FVOCI		
Balance at 1 January	**1**	**1**
Financial assets that have been derecognised	(1)	**(1)**
Balance at 31 December	**-**	**-**
2022		
Debt investment securities at FVOCI		
Balance at 1 January	**2**	**2**
New financial assets originated or purchased	1	**1**
Financial assets that have been derecognised	(2)	**(2)**
Balance at 31 December	**1**	**1**

(in EUR million)

Bank **2023**	12-month ECL	**Total**
Debt investment securities at FVOCI		
Balance at 1 January	**1**	**1**
Financial assets that have been derecognised	(1)	**(1)**
Balance at 31 December	**-**	**-**
2022		
Debt investment securities at FVOCI		
Balance at 1 January	**2**	**2**
New financial assets originated or purchased	1	**1**
Financial assets that have been derecognised	(2)	**(2)**
Balance at 31 December	**1**	**1**

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Financial assets at fair value through profit or loss per external risk classification

The table below provides information of the credit quality of financial assets at fair value through profit or loss (excluding equity securities and units in investment funds); using external ratings of Fitch Ratings or Standard & Poor's if Fitch Ratings was not available:

(in EUR million)

	GROUP		**BANK**	
	2023	2022	2023	2022
Government bonds and treasury bills				
BBB +	51	72	51	72
Total	**51**	**72**	**51**	**72**

Offsetting financial assets and financial liabilities

The disclosures set out in the table on the next page include financial assets and financial liabilities that are offset in the Group's statement of financial position; or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the tables unless they are offset in the statement of financial position.

The Group receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements and
- securities lending and borrowing.

The disclosures set out in the table on the next page include financial assets and financial liabilities that are subject to offsetting, irrespective of whether they are offset in the statement of financial position. These include derivative clearing agreements, sale and repurchase agreements and reverse sale and repurchase agreements.

Derivative financial instruments

Derivative financial instruments include foreign exchange forward contracts, foreign exchange swaps and embedded derivatives in contracts with a single-sided currency clause. All derivatives are classified as held for trading and carried as assets when their fair value is positive and as liabilities when negative.

At 31 December 2023 derivative financial instruments with positive fair value amounted to EUR 1 million (31 December 2022: EUR 2 million) for the Group and EUR null (31 December 2022: EUR 0,3 million) for the Bank, while derivative financial instruments with negative fair value amounted to EUR 1 million (31 December 2022: EUR 3 million) for the Group and EUR null (31 December 2022: EUR 1 million) for the Bank.

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

a) Credit risk (continued)

Offsetting financial assets and financial liabilities (continued)

Sale and repurchase agreement, and reverse sale and repurchase transaction

Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it at a fixed price on a future date. The Group continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all the risks and rewards of ownership. The cash consideration received is recognised as a financial asset and a financial liability is recognised for the obligation to repay at the repurchase price, classified as interest-bearing borrowings.

Reverse sale and repurchase agreements are transactions in which the Group purchases a security and simultaneously agrees to sell it at a fixed price on a future date. The Group holds collateral in the form of marketable securities in respect of loans given. Sale and repurchase agreements as well as reverse sale and repurchase agreements give the Group possibility for offsetting on a net basis, in case of default of any counterparty.

The table below shows the amount of collateral accepted in respect of reverse sale and repurchase agreements and given in respect of sale and repurchase agreements. Collateral accepted and given includes government issued T-bills and Bonds.

(in EUR million)

		GROUP		**BANK**
	2023	2022	2023	2022
Receivables from reverse sale and repurchase agreements related to:	**833**	**61**	**826**	**61**
- loans and advances to banks	*825*	*52*	*825*	*52*
- loans and advances to customers	*8*	*9*	*1*	*9*
Fair value of collateral accepted in respect of the above	919	68	907	68
Payables under sale and repurchase agreements	**135**	**134**	**134**	**134**
- interest-bearing borrowings	*135*	*134*	*134*	*134*
Carrying amount of collateral provided in respect of the above relating to:	**168**	**153**	**153**	**153**
- financial assets designated at fair value through other comprehensive income	*168*	*153*	*153*	*153*

b) Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at the appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, interest-bearing borrowings and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funding. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy. In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management.

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

b) Liquidity risk (continued)

The Group adjusts its business activities to manage liquidity risk according to regulatory and internal policies for the maintenance of liquidity reserves, matching of liabilities and assets, control of limits, preferred liquidity ratios and contingency planning procedures. Needs for short-term liquidity are planned every month for a period of one month and are controlled and maintained daily. The Treasury department manages liquidity reserves daily, ensuring also the fulfilment of all customer needs.

Apart from external requirements that include regulatory limits prescribed by the CNB (obligatory reserve with the CNB and others), the Bank has defined a set of internal limits for measuring and monitoring liquidity risk exposure. Thus, the process of liquidity monitoring and control is defined through the following activities and indicators:

- monitoring of liquidity reserve levels;
- Liquidity coverage ratio;
- Net stable funding ratio;
- analysis of the Bank's funding structure;
- stress tests;
- survival period;
- money market debt exposure towards the overall deposit base and other funding concentration ratios;
- cash flow projections;
- liquidity contingency plan indicators.

For the purpose of the Group's liquidity risk exposure reporting, the following four types of signals are defined:

- Hard limit - breach of a prescribed limit demands action in accordance with the Bank's liquidity risk management guidelines;
- Early warning limit - breach of a prescribed early warning limit demands action in accordance with the Bank's liquidity risk management guidelines;
- Threshold of attention and internal early warning limit - breach of a threshold acts as an early warning signal, demanding additional attention and action if decided by responsible persons;
- Information on various measures and indicators - serving as information to the relevant decision-making bodies.

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

b) Liquidity risk (continued)

A maturity analysis of financial liabilities according to the remaining contractual maturity as well as an analysis of financial assets and financial liabilities according to their expected maturities are presented in Note 48 Liquidity risk.

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents and debt securities for which there is an active and liquid market so that they can be readily sold to meet liquidity requirements. In addition, the Group maintains agreed lines of credit with banks and holds unencumbered assets eligible for use as collateral.

c) Market risk

All trading instruments are subject to market risk, which is the risk that changes in market prices, such as interest rates, equity securities prices, foreign exchange rates and credit spreads (not relating to changes in the obligator's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The Group manages and controls market risk exposures within acceptable parameters to ensure the Group's solvency while optimising the return on risk.

Market risk limits are defined based on the Group strategy and requirements, in accordance with senior management risk policy indicators.

Market risk measurement techniques

Exposure to market risk is formally managed by risk limits which are approved by senior management and revised at least annually. The Group applies the following market risk management techniques: VaR ("Value at Risk"), issuer limits, positional (nominal) exposure, PV01 (the present value of the impact of a 1 bps movement in interest rate) and stop loss limits. The exposure figures and limit utilisations are delivered daily to the senior management and lower management levels within the Treasury & ALM Department, which enables informed decision-making at all management and operational levels.

The Group follows market risk measurement and management principles set in cooperation with the Intesa Sanpaolo Group. VaR methodology is used as a basis for top management reporting on the Group's market risk exposure. The Group uses historical simulation (as the Group standard VaR methodology) and RiskWatch (as a Group wide VaR calculation engine), and other supporting activities (pricing, back-testing, stress testing) to ensure compliance with Intesa Sanpaolo Group standards.

The major elements of the market risk management framework include:

- VaR Methodology and Backtesting;
- Sensitivity;
- Fair Value Measurement;
- Level measurements (nominal amount, open position, market value etc);
- Profit and loss indicators (P&L);
- Stress testing and scenario analysis;
- Monitoring and measurement of counterparty and delivery risk exposure.

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

c) Market risk (continued)

VaR

The principal tool used to measure and control market risk exposure within the Group's trading portfolio is value-at-risk (VaR). VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) given an adverse movement with a specified probability (confidence level). The model used by the Group is based upon a 99% confidence level, assumes a 1 day holding period and takes into account 250 historical scenarios. The use of a 99% confidence level means that losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

The Group uses VaR to measure the following market risks:

- general and specific interest rate risk in trading book;
- equity risk in trading book;
- foreign exchange risk on the statement of financial position level (both trading and banking book).

(in EUR thousand)

Group	Equity VaR	Interest rate VaR	Foreign exchange VaR	Effects of correlation	**Total**
2023 – 2 January	-	457	30	(29)	**458**
2023 – 29 December	-	183	6	-	**189**
2023 – Average daily	-	290	26	(25)	**291**
2023 – Lowest	-	184	5	-	**189**
2023 – Highest	-	459	4	-	**463**

Note: historical simulation used for VaR calculations, lowest and highest amounts refer to Total VaR, while interest rate, foreign exchange and correlation effects are expressed as contributions in lowest/highest Total VaR.

(in EUR thousand)

Group	Equity VaR	Interest rate VaR	Foreign exchange VaR	Effects of correlation	**Total**
2022 – 3 January	-	187	74	(75)	**186**
2022 – 30 December	-	368	110	(59)	**419**
2022 – Average daily	-	458	248	(180)	**526**
2022 – Lowest	-	187	74	(75)	**186**
2022 – Highest	-	550	532	(282)	**800**

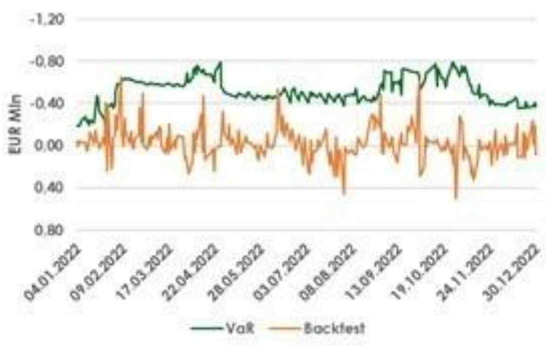
Note: historical simulation used for VaR calculations, lowest and highest amounts refer to Total VaR, while interest rate, foreign exchange and correlation effects are expressed as contributions in lowest/highest Total VaR.

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

c) Market risk (continued)

Chart below presents Bank's Total VaR movements in 2023 and 2022 and corresponding backtest values:



In accordance with confidence level of VaR model, in period of one year some backtest breaches are expected, while in 2023 one Total VaR backtest breach was observed due to change in interest rates.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations:

- a one day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for illiquid assets or in situations in which there is severe market illiquidity;
- a 99% confidence level does not reflect losses that may occur beyond this level;
- the use of historical data as a basis for determining the possible range of future outcomes may not cover all possible scenarios, especially those of an exceptional nature;
- the VaR measure is dependent upon the Group's position and the volatility of market prices.

To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. As part of the validation process, the potential weaknesses of the models are analysed using statistical techniques, such as back-testing.

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies. Foreign currency exposure arises from credit, deposit-taking, investment and trading activities. It is monitored daily in accordance with regulations and internally set limits, for each currency and for the total assets and liabilities denominated in or linked to foreign currency.

The currency risk exposure is monitored at the overall statement-of-financial-position level by calculating the foreign exchange open position as prescribed by the regulatory provisions and daily through internal limits based on market risk models (foreign exchange VaR). The management of foreign exchange currency risk is supported by monitoring the sensitivity of the Group's financial assets and liabilities to fluctuation in foreign currencies exchange rates.

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

c) Market risk (continued)

The tables below indicate the currencies to which the Group and the Bank had significant exposure on 31 December 2023 and 31 December 2022 and for other currencies summarize. FX open position represents net exposure in foreign currency, for both balance and off-balance sheet items, after adjustments for the effects of derivatives. The analysis calculates the effect of a reasonably possible movement of the currencies against the euro, with all other variables held constant on the income statement. A negative amount in the table reflects a potential net reduction in the income statement, while a positive amount reflects a net potential increase.

(in EUR million)

	Group			**Bank**		
		Scenario 2023			Scenario 2023	
Currency	FX Open position 31 December 2023*	10% Move Up / 0%	10% Move Down / 0%	FX Open position 31 December 2023*	10% Move Up / 0%	10% Move Down / 0%
USD	**1**	-	-	**1**	-	-
Other**	**104**	-	-	**4**	-	-

* Positive amounts represent long FX position while negative amounts represent short FX Position.

**„Other“ relates primarily to position in BAM currency, whose rate is fixed to EUR currency and therefore can be considered equal to EUR from FX risk perspective.

(in EUR million)

	Group			**Bank**		
		Scenario 2022			Scenario 2022	
Currency	FX Open position 31 December 2022*	10% Move Up / 0%	10% Move Down / 0%	FX Open position 31 December 2022*	10% Move Up / 0%	10% Move Down / 0%
EUR**	**(49)**	-	-	**(15)**	-	-
USD	**(4)**	-	-	**(1)**	-	-
Other***	**106**	-	-	**4**	-	-

* Positive amounts represent long FX position while negative amounts represent short FX Position.

** Due to Croatian adoption of EUR as local currency as of 2023, FX risk arising from this currency was eliminated.

***„Other“ relates primarily to position in BAM currency, whose rate is fixed to EUR currency and therefore can be considered equal to EUR from FX risk perspective.

Currency risk is further analysed in Note 47 Currency risk.

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

c) Market risk (continued)

Interest rate risk

Interest rate risk represents the risk of decrease in assets values caused by adverse interest rate changes. Interest rate changes affect the net present value of future cash flows and consequently net interest income.

The sources of interest rate risk are:

- repricing risk - resulting from unfavourable changes in the fair value of assets and liabilities in the remaining period until the next interest rate change;
- yield curve risk - the risk of changes in shape and slope of yield curve and
- basis risk - risk arising from the imperfect correlation in the adjustment of the rates earned and paid on different interest rate sensitive instruments with otherwise similar rate change characteristics (e.g. EURIBOR3M vs EURIBOR6M).

Asset-liability risk management activities are conducted to manage the Group's sensitivity to interest rate changes. Exposure to interest rate risk is monitored and measured using repricing gap analysis, net interest income and the economic value of capital. Risk management activities are aimed at optimising net interest income and the economic value of capital, in accordance with the Group's business strategies and given market interest rate levels.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates of the Group and the Bank income statements, with all other variables held constant. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, on the interest rate sensitive non-trading financial assets and financial liabilities held at 31 December 2023. Items with floating interest rate are distributed according to next repricing date, while items with fixed interest rate according to their original maturity.

(in EUR million)

		Change at 31 December 2023			Change at 31 December 2022		
	Increase in basis points	Interest income	Interest expenses	Net interest income	Interest income	Interest expenses	Net interest income
Group	+25	28.9	(10.2)	18.7	28.4	(19.6)	8.8
	+50	57.8	(20.4)	37.4	56.8	(39.2)	17.6
Bank	+25	21.4	(6.8)	14.7	21.5	(16.8)	4.7
	+50	42.8	(13.5)	29.3	43.1	(33.7)	9.4

(in EUR million)

		Change at 31 December 2023			Change at 31 December 2022		
	Decrease in basis points	Interest income	Interest expenses	Net interest income	Interest income	Interest expenses	Net interest income
Group	-25	(27.2)	9.5	(17.7)	(28.5)	10.1	(18.5)
	-50	(54.3)	18.9	(35.4)	(57.1)	20.1	(37.0)
Bank	-25	(19.7)	6.4	(13.3)	(21.7)	7.3	(14.4)
	-50	(39.4)	12.7	(26.7)	(43.3)	14.6	(28.9)

Notes to the financial statements (continued)

44 Financial risk management policies (continued)

c) Market risk (continued)

For the purpose of interest rate risk monitoring, the Bank uses a financial representation model for sight deposits aimed at adequately reflecting behavioural features, stability of deposits, and partial and delayed reaction to market interest rate fluctuations. Under the hypothesis of increasing interest rates shock, clients could move their current accounts volumes towards more remunerating alternative forms of investments/savings. This phenomenon is represented by path dependant component (greater is the shock amount, greater is the moving of volumes) which makes key difference between measurement of net interest income in positive and negative scenarios. Interest rate risk management is further analysed in Note 45 Interest rate risk.

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment. The primary exposure to equity prices arises from equity securities held for trading and available for sale, which is not significant.

Derivative financial instruments

The Group enters into derivative financial instruments primarily to satisfy the needs and requirements of customers. Derivative financial instruments used by the Group include foreign exchange swaps and forwards, Derivatives are contracts which are individually negotiated over the counter.

d) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk. In order to measure and manage operational risk exposure at the Group level efficiently, the Group applies an internal model for operational risk exposure management in line with the prescribed Basel II framework.

The internal model for calculation of the regulatory capital requirement for operational risk is based on the Advanced Measurement Approach (AMA) and contains the following components: Loss Distribution Approach – LDA based on measure of historical losses or ex-post measured exposure (backward looking) and integrated self-diagnosis process (scenario analysis and business environment evaluation) based on subjective estimation of possible future operational losses (forward looking measure).

The AMA model has been used only for the calculation of the capital requirement for the Bank and it applies the AMA approach since 31 March 2011. For all other Group members, the Standardised Approach (TSA) has been used which calculates capital requirement as a risk weighted indicator for all regulatory business lines.

Notes to the financial statements (continued)

45 Interest rate risk

Interest rate risk is measured through change in the net present value of the portfolio in case of a shift in the reference curves.

The tables below show the sensitivity based on the change of the interest rate for one basis point through the interest rate periods which are defined by the remaining contracted maturity or the contracted interest rate period, whichever is shorter, and does not include held for trading portfolio. Positions with currency clause are represented as in reference currency. In the tables below, increases in the net present value of all future cash flows are shown as positive values, while decreases are shown as a negative value, shown over the different currencies and interest rate periods.

The basis for the sensitivity analysis of the individual position are the contracted interest rate periods. For positions which do not have interest rate periods contracted (a vista position) or can be subject to prepayment, the Group uses assumptions which reflect the real interest sensitivity of the position.

(in EUR thousands)

Group **Assets**	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 10 years	Over 10 years	**Total**
As at 31 December 2023						
EUR	(21)	(100)	17	(175)	(173)	**(452)**
USD	(4)	2	4	(2)	-	**-**
CHF	(2)	1	1	-	-	**-**
Other	2	(9)	(2)	(40)	5	**(44)**
Total	**(25)**	**(106)**	**20**	**(217)**	**(168)**	**(496)**
As at 31 December 2022						
EUR	(19)	(39)	135	(295)	(94)	(312)
USD	(2)	(2)	(1)	(2)	-	(7)
CHF	(2)	1	-	-	-	(1)
Other	(1)	(3)	(15)	(33)	3	(49)
Total	**(24)**	**(43)**	**119**	**(330)**	**(91)**	**(369)**

Notes to the financial statements (continued)

45 Interest rate risk (continued)

(in EUR thousands)

Bank **Assets**	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 10 years	Over 10 years	**Total**
As at 31 December 2023						
EUR	(20)	(101)	24	(130)	(122)	**(349)**
USD	(3)	2	4	(2)	-	**1**
CHF	(2)	1	1	(1)	-	**(1)**
Total	**(25)**	**(98)**	**29**	**(133)**	**(122)**	**(349)**
As at 31 December 2022						
EUR	(19)	(24)	112	(266)	(44)	**(241)**
USD	(1)	(2)	-	(2)	-	**(5)**
CHF	(2)	1	-	(1)	-	**(2)**
Total	**(22)**	**(25)**	**112**	**(269)**	**(44)**	**(248)**

46 Weighted average interest rates

The average effective interest rates for interest-earning financial assets and interest-bearing financial liabilities during the year are calculated on average balances at the end of each month for the Group and average monthly balances for the Bank.

The weighted average interest rates at the year-end are as follows:

		GROUP		**BANK**
	2023 %	2022 %	2023 %	2022 %
Current accounts with banks	(0.65)	(0.29)	(0.66)	(0.04)
Balances with the Croatian National Bank	2.98	0.00	3.17	0.00
Financial assets at fair value through profit or loss	2.26	2.34	2.32	2.39
Loans and advances to banks	3.40	0.08	3.49	0.08
Loans and advances to customers	3.66	2.92	3.73	3.10
Current accounts and deposits from customers	0.23	0.06	0.21	0.05
Current accounts and deposits from banks, interest-bearing borrowings and senior non-preferred and sub-ordinated debt	2.18	0.44	1.74	0.56

Notes to the financial statements (continued)

47 Currency risk

The Group manages its exposure to currency risk through a variety of measures including the use of revaluation clauses, which have the same effect as denominating EUR assets in other currencies and foreign currency deals bought and sold forward.

The Group's open FX position is mitigated through the use of derivative financial instruments which are not shown in the tables below.

Notes to the financial statements (continued)

47 Currency risk (continued)

(in EUR million)

Group **As at 31 December 2023**	EUR and EUR linked	CHF and CHF linked	USD and USD linked	BAM and BAM linked	Other curren-cies	**Total**
Assets						
Cash and current accounts with banks	2,005	33	41	221	53	**2,353**
Balances with the Croatian National Bank	3,334	-	-	-	-	**3,334**
Financial assets held for trading	51	-	-	-	-	**51**
Derivative financial assets	51	-	1	-	-	**52**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	(5)	-	-	-	-	**(5)**
Loans and advances to banks	1,104	152	386	115	77	**1,834**
Loans and advances to customers	11,268	3	59	577	-	**11,907**
Investment securities	1,679	-	83	7	-	**1,769**
Investments in subsidiaries and associates	9	-	-	-	-	**9**
Other assets	40	-	-	6	-	**46**
Current tax assets	-	-	-	2	-	**2**
Property and equipment	232	-	-	11	-	**243**
Investment property	4	-	-	-	-	**4**
Non-current assets held for sale	2	-	-	-	-	**2**
Deferred tax assets	22	-	-	-	-	**22**
Intangible assets	62	-	-	2	-	**64**
Total assets	**19,858**	**188**	**570**	**941**	**130**	**21,687**
Liabilities						
Current accounts and deposits from banks	154	5	8	-	10	**177**
Current accounts and deposits from customers	15,724	182	563	682	107	**17,258**
Derivative financial liabilities	32	-	1	-	-	**33**
Interest-bearing borrowings and other financial liabilities	648	-	-	5	-	**653**
Senior non-preferred and subordinated debt	207	-	-	-	-	**207**
Current tax liability	64	-	-	-	-	**64**
Other liabilities	271	-	4	16	-	**291**
Accrued expenses and deferred income	54	-	-	-	-	**54**
Provisions	100	-	2	2	1	**105**
Deferred tax liabilities	11	-	-	-	-	**11**
Total liabilities	**17,265**	**187**	**578**	**705**	**118**	**18,853**
Net position	**2,593**	**1**	**(8)**	**236**	**12**	**2,834**

Notes to the financial statements (continued)

47 Currency risk (continued)

(in EUR million)

Group **As at 31 December 2022**	EUR and EUR linked	CHF and CHF linked	USD and USD linked	BAM and BAM linked	Other curren-cies	**Total**
Assets						
Cash and current accounts with banks	5,754	71	80	250	39	**6,194**
Balances with the Croatian National Bank	395	-	-	-	-	**395**
Financial assets held for trading	70	-	2	-	-	**72**
Derivative financial assets	85	-	2	-	-	**87**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	(65)	-	-	-	-	**(65)**
Loans and advances to banks	444	110	291	104	63	**1,012**
Loans and advances to customers	10,634	4	38	465	-	**11,141**
Investment securities	1,538	-	102	-	-	**1,640**
Investments in subsidiaries and associates	9	-	-	-	-	**9**
Other assets	36	-	-	2	-	**38**
Current tax assets	-	-	-	2	-	**2**
Property and equipment	222	-	-	12	-	**234**
Investment property	4	-	-	-	-	**4**
Non-current assets held for sale	42	-	-	-	-	**42**
Deferred tax assets	24	-	-	-	-	**24**
Intangible assets	51	-	-	2	-	**53**
Total assets	**19,243**	**185**	**515**	**837**	**102**	**20,882**
Liabilities						
Current accounts and deposits from banks	300	4	3	5	10	**322**
Current accounts and deposits from customers	15,322	181	591	628	94	**16,816**
Derivative financial liabilities	-	-	2	-	1	**3**
Interest-bearing borrowings and other financial liabilities	644	-	-	6	-	**650**
Senior non-preferred and subordinated debt	135	-	-	-	-	**135**
Current tax liability	10	-	-	-	-	**10**
Other liabilities	229	-	3	14	-	**246**
Accrued expenses and deferred income	55	-	-	-	-	**55**
Provisions	99	-	2	2	1	**104**
Deferred tax liabilities	10	-	-	-	-	**10**
Total liabilities	**16,804**	**185**	**601**	**655**	**106**	**18,351**
Net position	**2,439**	**-**	**(86)**	**182**	**(4)**	**2,531**

Notes to the financial statements (continued)

47 Currency risk (continued)

(in EUR million)

Bank **As at 31 December 2023**	EUR and EUR linked	CHF and CHF linked	USD and USD linked	BAM and BAM linked	Other curren-cies	**Total**
Assets						
Cash and current accounts with banks	986	31	24	5	41	**1,087**
Balances with the Croatian National Bank	3,334	-	-	-	-	**3,334**
Financial assets held for trading	51	-	-	-	-	**51**
Derivative financial assets	22	-	-	-	-	**22**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	8	-	-	-	-	**8**
Loans and advances to banks	985	130	324	-	68	**1,507**
Loans and advances to customers	8,210	2	59	-	-	**8,271**
Investment securities	1,347	-	46	-	-	**1,393**
Investments in subsidiaries and associates	141	-	-	104	-	**245**
Other assets	25	-	-	-	-	**25**
Property and equipment	142	-	-	-	-	**142**
Investment property	3	-	-	-	-	**3**
Non-current assets held for sale	1	-	-	-	-	**1**
Deferred tax assets	16	-	-	-	-	**16**
Intangible assets	48	-	-	-	-	**48**
Total assets	**15,319**	**163**	**453**	**109**	**109**	**16,153**
Liabilities						
Current accounts and deposits from banks	126	5	8	-	10	**149**
Current accounts and deposits from customers	12,155	157	441	-	86	**12,839**
Derivative financial liabilities	29	-	-	-	-	**29**
Interest-bearing borrowings and other financial liabilities	438	-	-	-	-	**438**
Senior non-preferred and subordinated debt	135	-	-	-	-	**135**
Current tax liability	32	-	-	-	-	**32**
Other liabilities	157	-	1	-	-	**158**
Accrued expenses and deferred income	24	-	-	-	-	**24**
Provisions	88	-	2	-	1	**91**
Deferred tax liabilities	4	-	-	-	-	**4**
Total liabilities	**13,188**	**162**	**452**	**-**	**97**	**13,899**
Net position	**2,131**	**1**	**1**	**109**	**12**	**2,254**

Notes to the financial statements (continued)

47 Currency risk (continued)

(in EUR million)

Bank As at 31 December 2022	EUR and EUR linked	CHF and CHF linked	USD and USD linked	BAM and BAM linked	Other curren-cies	Total
Assets						
Cash and current accounts with banks	4,965	66	64	5	29	**5,129**
Balances with the Croatian National Bank	395	-	-	-	-	**395**
Financial assets held for trading	70	-	2	-	-	**72**
Derivative financial assets	39	-	-	-	-	**39**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	(39)	-	-	-	-	**(39)**
Loans and advances to banks	360	92	227	-	60	**739**
Loans and advances to customers	7,658	3	38	-	-	**7,699**
Investment securities	1,266	-	60	-	-	**1,326**
Investments in subsidiaries and associates	245	-	-	-	-	**245**
Other assets	21	-	-	-	-	**21**
Current tax assets	-	-	-	-	-	**-**
Property and equipment	144	-	-	-	-	**144**
Investment property	3	-	-	-	-	**3**
Non-current assets held for sale	1	-	-	-	-	**1**
Deferred tax assets	18	-	-	-	-	**18**
Intangible assets	38	-	-	-	-	**38**
Total assets	**15,184**	**161**	**391**	**5**	**89**	**15,830**
Liabilities						
Current accounts and deposits from banks	206	5	3	-	10	**224**
Current accounts and deposits from customers	11,977	155	466	-	81	**12,679**
Derivative financial liabilities	-	-	-	-	1	**1**
Interest-bearing borrowings and other financial liabilities	434	-	-	-	-	**434**
Senior non-preferred and subordinated debt	135	-	-	-	-	**135**
Current tax liability	9	-	-	-	-	**9**
Other liabilities	115	-	3	-	-	**118**
Accrued expenses and deferred income	22	-	-	-	-	**22**
Provisions	86	-	2	-	1	**89**
Deferred tax liabilities	4	-	-	-	-	**4**
Total liabilities	**12,988**	**160**	**474**	**-**	**93**	**13,715**
Net position	**2,196**	**1**	**(83)**	**5**	**(4)**	**2,115**

Notes to the financial statements (continued)

48 Liquidity risk

Analysis of financial liabilities by remaining undiscounted contractual maturities

The tables below set out the remaining undiscounted contractual maturity of the Group's and Bank's financial liabilities as at 31 December 2023 and 31 December 2022.

(in EUR million)

Group **As at 31 December 2023**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
Liabilities							
Current accounts and deposits from banks	174	1	2	-	-	**177**	**177**
Current accounts and deposits from customers	5,311	1,413	4,086	4,226	2,322	**17,358**	**17,258**
Derivative financial liabilities	29	-	-	1	3	**33**	**33**
Interest-bearing borrowings and other financial liabilities	48	18	92	390	114	**662**	**621**
Senior non-preferred and subordinated debt	-	-	-	223	-	**223**	**207**
Lease liability	1	1	9	18	3	**32**	**32**
Other liabilities*	431	11	57	23	3	**525**	**525**
Total undiscounted financial liabilities	**5,994**	**1,444**	**4,246**	**4,881**	**2,445**	**19,010**	**18,853**
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	303	188	1,609	441	182	**2,723**	**2,723**
Other contingent liabilities	50	108	306	284	91	**839**	**839**
Total undiscounted off-balance sheet contingent liabilities and commitments	**353**	**296**	**1,915**	**725**	**273**	**3,562**	**3,562**

* Other liabilities include other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability.

Notes to the financial statements (continued)

48 Liquidity risk (continued)

Analysis of financial liabilities by remaining undiscounted contractual maturities (continued)

(in EUR million)

Group **As at 31 December 2022**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
Liabilities							
Current accounts and deposits from banks	209	70	44	-	-	**323**	**322**
Current accounts and deposits from customers	9,356	333	1,053	6,080	52	**16,874**	**16,816**
Derivative financial liabilities	-	-	2	-	-	**2**	**3**
Interest-bearing borrowings and other financial liabilities	43	6	43	385	157	**634**	**618**
Senior non-preferred and subordinated debt	-	-	-	136	-	**136**	**135**
Lease liability	1	2	8	20	3	**34**	**32**
Other liabilities*	366	11	27	17	5	**426**	**426**
Total undiscounted financial liabilities	**9,975**	**422**	**1,177**	**6,638**	**217**	**18,429**	**18,352**
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	1,137	168	579	1,014	58	**2,956**	**2,957**
Other contingent liabilities	48	165	260	233	64	**770**	**769**
Total undiscounted off-balance sheet contingent liabilities and commitments	**1,185**	**333**	**839**	**1,247**	**122**	**3,726**	**3,726**

* Other liabilities include other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability,

Notes to the financial statements (continued)

48 Liquidity risk (continued)

Analysis of financial liabilities by remaining undiscounted contractual maturities (continued)

(in EUR million)

Bank **As at 31 December 2023**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
Liabilities							
Current accounts and deposits from banks	149	-	-	-	-	**149**	**149**
Current accounts and deposits from customers	1,793	1,242	3,544	4,011	2,364	**12,954**	**12,839**
Derivative financial liabilities	29	-	-	-	-	**29**	**29**
Interest-bearing borrowings and other financial liabilities	45	4	27	256	96	**428**	**406**
Senior non-preferred and subordinated debt	-	-	-	143	-	**143**	**135**
Lease liability	1	1	7	21	3	**33**	**32**
Other liabilities*	256	2	43	6	3	**310**	**309**
Total undiscounted financial liabilities	**2,273**	**1,249**	**3,621**	**4,437**	**2,466**	**14,046**	**13,899**
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	132	141	1,393	308	180	**2,154**	**2,154**
Other contingent liabilities	36	58	171	187	83	**535**	**535**
Total undiscounted off-balance sheet contingent liabilities and commitments	**168**	**199**	**1,564**	**495**	**263**	**2,689**	**2,689**

* Other liabilities include other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability,

Notes to the financial statements (continued)

48 Liquidity risk (continued)

Analysis of financial liabilities by remaining undiscounted contractual maturities (continued)

(in EUR million)

Bank **As at 31 December 2022**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
Liabilities							
Current accounts and deposits from banks	224	-	-	-	-	**224**	**224**
Current accounts and deposits from customers	5,580	279	906	5,941	27	**12,733**	**12,679**
Derivative financial liabilities	-	-	1	-	-	**1**	**1**
Interest-bearing borrowings and other financial liabilities	35	3	24	249	101	**412**	**402**
Senior non-preferred and subordinated debt	-	-	-	136	-	**136**	**135**
Lease liability	1	1	7	19	5	**33**	**32**
Other liabilities*	209	2	24	5	4	**244**	**242**
Total undiscounted financial liabilities	**6,049**	**285**	**962**	**6,350**	**137**	**13,783**	**13,715**
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	972	118	335	855	54	**2,334**	**2,334**
Other contingent liabilities	39	93	150	182	63	**527**	**526**
Total undiscounted off-balance sheet contingent liabilities and commitments	**1,011**	**211**	**485**	**1,037**	**117**	**2,861**	**2,860**

* Other liabilities include other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability.

Notes to the financial statements (continued)

48 Liquidity risk (continued)

Maturity analysis of assets and liabilities

The tables below present analyses of assets and liabilities of the Group and Bank according to their expected maturities at 31 December 2023 and 31 December 2022. The Group's expected cash flows on some financial assets and liabilities vary significantly from the contractual cash flows. For example, demand deposits from customers are expected to maintain a stable balance and are not all expected to be drawn immediately.

The Group and the Bank made certain assumptions in producing the maturity analyses set out below. The assumptions applied for loans and advances to customers were mostly based on contractual maturities, whilst overdraft, revolving and other facilities without precise amortisation plans were assumed to be recoverable within 12 months. Moreover, expected maturities for current accounts and deposits from customers and to some extent non-performing loans were based on statistical behaviour model as of past experience. All other items of the Group and the Bank were mostly based on contractual maturities.

Notes to the financial statements (continued)

48 Liquidity risk (continued)

Maturity analysis of assets and liabilities (continued)

(in EUR million)

Group **As at 31 December 2023**	Less than 12 months	Over 12 months	**Total**
Assets			
Cash and current accounts with banks	2,319	34	**2,353**
Balances with the Croatian National Bank	3,334	-	**3,334**
Financial assets held for trading	1	50	**51**
Derivative financial assets	30	22	**52**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	(5)	-	**(5)**
Loans and advances to banks	1,743	91	**1,834**
Loans and advances to customers	3,164	8,743	**11,907**
Investment securities	1,229	540	**1,769**
Investments in subsidiaries and associates	-	9	**9**
Other assets	38	8	**46**
Current tax assets	-	2	**2**
Property and equipment	-	243	**243**
Investment property	-	4	**4**
Non-current assets held for sale	2	-	**2**
Deferred tax assets	19	3	**22**
Intangible assets	-	64	**64**
Total assets	**11,874**	**9,813**	**21,687**
Liabilities			
Current accounts and deposits from banks	177	-	**177**
Current accounts and deposits from customers	10,804	6,454	**17,258**
Derivative financial liabilities	29	4	**33**
Interest-bearing borrowings and other financial liabilities	169	484	**653**
Senior non-preferred and subordinated debt	-	207	**207**
Current tax liability	64	-	**64**
Other liabilities	291	-	**291**
Accrued expenses and deferred income	48	6	**54**
Provisions	89	16	**105**
Deferred tax liabilities	8	3	**11**
Total liabilities	**11,679**	**7,174**	**18,853**
Net expected maturity gap	**195**	**2,639**	**2,834**

Notes to the financial statements (continued)

48 Liquidity risk (continued)

Maturity analysis of assets and liabilities (continued)

(in EUR million)

Group

As at 31 December 2022	Less than 12 months	Over 12 months	**Total**
Assets			
Cash and current accounts with banks	6,164	30	**6,194**
Balances with the Croatian National Bank	395	-	**395**
Financial assets held for trading	28	44	**72**
Derivative financial assets	48	39	**87**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	(39)	(26)	**(65)**
Loans and advances to banks	960	52	**1,012**
Loans and advances to customers	2,904	8,237	**11,141**
Investment securities	1,042	598	**1,640**
Investments in subsidiaries and associates	-	9	**9**
Other assets	29	9	**38**
Current tax assets	-	2	**2**
Property and equipment	-	234	**234**
Investment property	-	4	**4**
Non-current assets held for sale	41	1	**42**
Deferred tax assets	21	3	**24**
Intangible assets	-	53	**53**
Total assets	**11,593**	**9,289**	**20,882**
Liabilities			
Current accounts and deposits from banks	322	-	**322**
Current accounts and deposits from customers	10,741	6,075	**16,816**
Derivative financial liabilities	3	-	**3**
Interest-bearing borrowings and other financial liabilities	103	547	**650**
Senior non-preferred and subordinated debt	-	135	**135**
Current tax liability	10	-	**10**
Other liabilities	245	1	**246**
Accrued expenses and deferred income	52	3	**55**
Provisions	88	16	**104**
Deferred tax liabilities	9	1	**10**
Total liabilities	**11,573**	**6,778**	**18,351**
Net expected maturity gap	**20**	**2,511**	**2,531**

Notes to the financial statements (continued)

48 Liquidity risk (continued)

Maturity analysis of assets and liabilities (continued)

(in EUR million)

Bank

As at 31 December 2023	Less than 12 months	Over 12 months	**Total**
Assets			
Cash and current accounts with banks	1,087	-	**1,087**
Balances with the Croatian National Bank	3,334	-	**3,334**
Financial assets held for trading	1	50	**51**
Derivative financial assets	22	-	**22**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	8	-	**8**
Loans and advances to banks	1,477	30	**1,507**
Loans and advances to customers	1,981	6,290	**8,271**
Investment securities	993	400	**1,393**
Investments in subsidiaries and associates	-	245	**245**
Other assets	23	2	**25**
Property and equipment	-	142	**142**
Investment property	-	3	**3**
Non-current assets held for sale	-	1	**1**
Deferred tax assets	16	-	**16**
Intangible assets	-	48	**48**
Total assets	**8,942**	**7,211**	**16,153**
Liabilities			
Current accounts and deposits from banks	149	-	**149**
Current accounts and deposits from customers	6,575	6,264	**12,839**
Derivative financial liabilities	29	-	**29**
Interest-bearing borrowings and other financial liabilities	85	353	**438**
Senior non-preferred and subordinated debt	-	135	**135**
Current tax liability	32	-	**32**
Other liabilities	158	-	**158**
Accrued expenses and deferred income	24	-	**24**
Provisions	83	8	**91**
Deferred tax liabilities	4	-	**4**
Total liabilities	**7,139**	**6,760**	**13,899**
Net expected maturity gap	**1,803**	**451**	**2,254**

Notes to the financial statements (continued)

48 Liquidity risk (continued)

Maturity analysis of assets and liabilities (continued)

(in EUR million)

Bank

As at 31 December 2022	Less than 12 months	Over 12 months	**Total**
Assets			
Cash and current accounts with banks	5,129	-	**5,129**
Balances with the Croatian National Bank	395	-	**395**
Financial assets held for trading	28	44	**72**
Derivative financial assets	39	-	**39**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	(39)	-	**(39)**
Loans and advances to banks	719	20	**739**
Loans and advances to customers	1,865	5,834	**7,699**
Investment securities	902	424	**1,326**
Investments in subsidiaries and associates	-	245	**245**
Other assets	18	3	**21**
Property and equipment	-	144	**144**
Investment property	-	3	**3**
Non-current assets held for sale	-	1	**1**
Deferred tax assets	18	-	**18**
Intangible assets	-	38	**38**
Total assets	**9,074**	**6,756**	**15,830**
Liabilities			
Current accounts and deposits from banks	224	-	**224**
Current accounts and deposits from customers	6,766	5,913	**12,679**
Derivative financial liabilities	1	-	**1**
Interest-bearing borrowings and other financial liabilities	71	363	**434**
Senior non-preferred and subordinated debt	-	135	**135**
Current tax liability	9	-	**9**
Other liabilities	118	-	**118**
Accrued expenses and deferred income	21	1	**22**
Provisions	82	7	**89**
Deferred tax liabilities	4	-	**4**
Total liabilities	**7,296**	**6,419**	**13,715**
Net expected maturity gap	**1,778**	**337**	**2,115**

Notes to the financial statements (continued)

49 Concentration of assets and liabilities

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector, The Bank's and the Group's assets and liabilities can be analysed by the following geographical regions and industry sector:

(in EUR million)

			GROUP			BANK
As at 31 December 2023	Assets	Liabilities	Off balance sheet liabilities	Assets	Liabilities	Off balance sheet liabilities
Geographic region						
Republic of Croatia	14,139	13,406	2,472	13,567	13,236	2,485
Other European Union members	6,072	3,992	715	2,327	327	120
Other countries	1,476	1,455	375	259	336	84
	21,687	**18,853**	**3,562**	**16,153**	**13,899**	**2,689**
Industry sector						
Citizens	6,240	11,216	1,253	4,507	8,535	1,065
Finance	6,933	1,572	102	5,482	1,100	126
Government	2,610	561	26	2,057	301	22
Commerce	670	837	391	277	550	196
Tourism	219	271	23	184	221	21
Agriculture	112	117	22	87	106	20
Other sectors	4,903	4,279	1,745	3,559	3,086	1,239
	21,687	**18,853**	**3,562**	**16,153**	**13,899**	**2,689**
As at 31 December 2022						
Geographic region						
Republic of Croatia	15,106	13,185	2,650	14,702	13,035	2,639
Other European Union members	4,150	3,835	750	677	367	174
Other countries	1,626	1,331	326	451	313	47
	20,882	**18,351**	**3,726**	**15,830**	**13,715**	**2,860**
Industry sector						
Citizens	5,621	11,212	1,274	3,982	8,633	1,076
Finance	7,112	1,607	68	5,904	1,218	111
Government	2,483	581	276	2,016	309	274
Commerce	721	712	436	342	537	233
Tourism	247	304	15	223	262	12
Agriculture	111	84	18	89	76	16
Other sectors	4,587	3,851	1,639	3,274	2,680	1,138
	20,882	**18,351**	**3,726**	**15,830**	**13,715**	**2,860**

50 Subsequent events

After the end of the reporting period, there were no significant events that would affect the financial statements and the Group's and Bank’s operations.

Appendix 1 – Unaudited supplementary forms required by local regulation

Supplementary financial statements of the Group and the Bank 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, 108/2022):

Form "Balance sheet"

(in EUR million)

		GROUP		BANK
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Assets				
Cash and deposits with the Croatian National Bank	5,762	5,817	4,496	5,524
Cash in hand	*973*	*1,064*	*927*	*799*
Deposits with the Croatian National Bank	*4,650*	*4,641*	*3,465*	*4,678*
Other deposits	*139*	*112*	*104*	*47*
Financial assets held for trading	52	74	51	72
Derivatives	*1*	*2*	-	-
Equity instruments	-	-	-	-
Debt securities	*51*	*72*	*51*	*72*
Loans and advances	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	12	10	9	7
Equity instruments	*6*	*5*	*5*	*4*
Debt securities	*6*	*5*	*4*	*3*
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	1,494	1,363	1,141	1,052
Equity instruments	*11*	*11*	-	-
Debt securities	*1,483*	*1,352*	*1,141*	*1,052*
Loans and advances	-	-	-	-
Financial assets at amortised cost	13,917	13,196	9,949	8,709
Debt securities	*263*	*267*	*243*	*267*
Loans and advances	*13,654*	*12,929*	*9,706*	*8,442*
Derivatives – Hedge accounting	51	85	22	39

Appendix 1 – Unaudited supplementary forms required by local regulation (continued)

Form "Balance sheet"(continued)

(in EUR million)

	GROUP		BANK	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Assets				
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(5)	(65)	8	(39)
Investments in subsidiaries, joint ventures and associates	9	9	245	245
Tangible assets	247	238	145	147
Intangible assets	64	53	48	38
Tax assets	24	26	16	18
Other assets	65	42	29	25
Non-current assets and disposal groups classified as held for sale	2	42	1	1
Total assets	**21,694**	**20,890**	**16,160**	**15,839**

Appendix 1 – Unaudited supplementary forms required by local regulation (continued)

Form "Balance sheet"(continued)

(in EUR million)

	GROUP		**BANK**	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Liabilities				
Financial liabilities held for trading	1	3	-	1
Derivatives	*1*	*3*	-	*1*
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 amortised cost	18,358	17,949	13,606	13,513
Deposits	*18,260*	*17,888*	*13,526*	*13,438*
Debt securities issued	-	-	-	-
Other financial liabilities	98	*61*	*80*	*75*
Derivatives – Hedge accounting	32	-	29	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-
Provisions	112	111	98	96
Tax liabilities	75	20	36	13
Share capital repayable on demand	-	-	-	-
Other liabilities	282	276	137	101
Liabilities included in disposal groups classified as held for sale	-	-	-	-
Total liabilities	**18,860**	**18,359**	**13,906**	**13,724**

Appendix 1 – Unaudited supplementary forms required by local regulation (continued)

Form "Balance sheet" (continued)

(in EUR million)

	GROUP		BANK	
	31 December 2023	31 December 2022	31 December 2023	31 December 2022
Equity				
Share capital	244	249	244	249
Share premium	208	208	208	208
Equity instruments issued other than capital	-	-	-	-
Other equity	-	-	-	-
Accumulated other comprehensive income	(5)	(16)	(6)	(14)
Retained earnings	1,732	1,739	1,476	1,470
Revaluation reserves	48	43	22	21
Other reserves	(24)	(37)	(4)	(9)
(-) Treasury shares	-	-	-	-
Profit or loss attributable to owners of the parent	437	186	314	190
(-) Interim dividends	-	-	-	-
Minority interests [Non-controlling interests]	194	159	-	-
Total equity	**2,834**	**2,531**	**2,254**	**2,115**
Total liabilities and equity	**21,694**	**20,890**	**16,160**	**15,839**
Total equity	**2,834**	**2,531**	**2,254**	**2,115**
Equity holders of the Bank	2,640	2,372	2,254	2,115
Non-controlling interests	194	159	-	-

The balance sheet form is prepared in accordance with the CNB Decision on the Structure and Content of Annual Financial Statements for Banks.

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB.

Balance sheet reconciliation as at 31 December 2023

Group, Assets **Per IFRS** **(in EUR million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Cash and deposits with the Croatian National Bank	2,353	3,334	-	-	-	75	-	-	-	-	-	-	-	-	-	-	5,762
Cash in hand	*973*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*973*
Deposits with the Croatian National Bank	*1,316*	*3,334*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*4,650*
Other deposits	*64*	*-*	*-*	*-*	*-*	*75*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*139*
Financial assets held for trading	-	-	51	1	-	-	-	-	-	-	-	-	-	-	-	-	52
Derivatives	*-*	*-*	*-*	*1*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*1*
Equity instruments	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Debt securities	*-*	*-*	*51*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*51*
Loans and advances	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2023 (continued)

Group, Assets (continued) **Per IFRS** **(in EUR million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	Total assets
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	12	-	-	-	-	-	-	-	-	12
Equity instruments	-	-	-	-	-	-	-	6	-	-	-	-	-	-	-	-	6
Debt securities	-	-	-	-	-	-	-	6	-	-	-	-	-	-	-	-	6
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2023 (continued)

Group, Assets (continued) **Per IFRS** **(in EUR million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	1,494	-	-	-	-	-	-	-	-	1,494
Equity instruments	-	-	-	-	-	-	-	*11*	-	-	-	-	-	-	-	-	*11*
Debt securities	-	-	-	-	-	-	-	*1,483*	-	-	-	-	-	-	-	-	*1,483*
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at amortised cost	-	-	-	-	-	1,759	11,895	263	-	-	-	-	-	-	-	-	13,917
Debt securities	-	-	-	-	-	-	-	*263*	-	-	-	-	-	-	-	-	*263*
Loans and advances	-	-	-	-	-	*1,759*	*11,895*	-	-	-	-	-	-	-		-	*13,654*
Derivatives – Hedge accounting	-	-	-	51	-	-	-	-	-	-	-	-	-	-	-	-	51

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2023 (continued)

Group, Assets (continued) **Per IFRS** **(in EUR million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	(5)	-	-	-	-	-	-	-	-	-	-	-	(5)
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	9	-	-	-	-	-	-	-	9
Tangible assets	-	-	-	-	-	-	-	-	-	-	243	4	-	-	-	-	247
Intangible assets	-	-	-	-	-	-	-	-	-	64	-	-	-	-	-	-	64
Tax assets	-	-	-	-	-	-	-	-	-	-	-	-	-	22	-	2	24
Other assets	-	-	-	-	-	-	19	-	-	-	-	-	-	-	46	-	65

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2023 (continued)

Group, Assets (continued) **Per IFRS** **(in EUR million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	2	-	-	-	2
Transfer to provisions	-	-	-	-	-	-	(7)	-	-	-	-	-	-	-	-	-	(7)
Total assets	**2,353**	**3,334**	**51**	**52**	**(5)**	**1,834**	**11,907**	**1,769**	**9**	**64**	**243**	**4**	**2**	**22**	**46**	**2**	**21,687**

Appendix 1 – Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2023 (continued)

Group, Liabilities **Per IFRS** **(in EUR million)**

CNB schedules	Current accounts and deposits from banks	Current accounts and deposits from customers	Derivative financial liabilities	Fair value changes of the hedged items in portfolio hedge	Interest-bearing borrowings	Senior non-preferred and subordinated debt	Other liabilities	Accrued expenses and deferred income	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	**Total liabilities**
Financial liabilities held for trading	-	-	1	-	-	-	-	-	-	-	-	**1**
Derivatives	-	-	*1*	-	-	-	-	-	-	-	-	***1***
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 amortised cost	177	17,258	-	-	653	207	63	-	-	-	-	**18,358**
Deposits	*177*	*17,258*	-	-	*618*	*207*	-	-	-	-	-	***18,260***
Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Other financial liabilities	-	-	-	-	*35*	-	*63*	-	-	-	-	***98***
Derivatives – Hedge accounting	-	-	32	-	-	-	-	-	-	-	-	**32**

Appendix 1 – Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2023 (continued)

Group, Liabilities (continued) **Per IFRS** **(in EUR million)**

CNB schedules	Current accounts and deposits from banks	Current accounts and deposits from customers	Derivative financial liabilities	Fair value changes of the hedged items in portfolio hedge	Interest-bearing borrowings	Senior non-preferred and subordinated debt	Other liabilities	Accrued expenses and deferred income	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	Total liabilities
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	-	-	-	-	-	**-**
Provisions	-	-	-	-	-	-	-	-	112	-	-	**112**
Tax liabilities	-	-	-	-	-	-	-	-	-	11	64	**75**
Share capital repayable on demand	-	-	-	-	-	-	-	-	-	-	-	**-**
Other liabilities	-	-	-	-	-	-	228	54	-	-	-	**282**
Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfer from loans and advances to customers	-	-	-	-	-	-	-	-	(7)	-	-	**(7)**
Total liabilities	**177**	**17,258**	**33**	**-**	**653**	**207**	**291**	**54**	**105**	**11**	**64**	**18,853**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2023 (continued)

Group, Equity **Per IFRS** **(in EUR million)**

CNB schedules	Share capita	Share premium	Other reserves	Fair value reserve	Retained earnings	Non-controlling interests	**Total equity**
Share capital	244	-	-	-	-	-	**244**
Share premium	-	208	-	-	-	-	**208**
Equity instruments issued other than capital	-	-	-	-	-	-	**-**
Other equity	-	-	-	-	-	-	**-**
Accumulated other comprehensive income	-	-	-	(5)	-	-	**(5)**
Retained earnings	-	-	-	-	1,732	-	**1,732**
Revaluation reserves	-	-	48	-	-	-	**48**
Other reserves	-	-	(24)	-	-	-	**(24)**
(-) Treasury shares	-	-	-	-	-	-	**-**
Profit or loss attributable to owners of the parent	-	-	-	-	437	-	**437**
(-) Interim dividends	-	-	-	-	-	-	**-**
Minority interests [Non-controlling interests]	-	-	-	-	-	194	**194**
Total equity	**244**	**208**	**24**	**(5)**	**2,169**	**194**	**2,834**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2023

Bank, Assets | **Per IFRS** | **(in EUR million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	Total assets
Cash and deposits with the Croatian National Bank	**1,087**	**3,334**	**-**	**-**	**-**	**75**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,496**
Cash in hand	*927*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*927*
Deposits with the Croatian National Bank	*131*	*3,334*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*3,465*
Other deposits	*29*	*-*	*-*	*-*	*-*	*75*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*104*
Financial assets held for trading	**-**	**-**	**51**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**51**
Derivatives	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Equity instruments	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Debt securities	*-*	*-*	*51*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*51*
Loans and advances	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2023 (continued)

Bank, Assets (continued) **Per IFRS** **(in EUR million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Non-trading financial assets mandatorily at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9**
Equity instruments	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*5*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*5*
Debt securities	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*4*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*4*
Loans and advances	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Financial assets designated at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Debt securities	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Loans and advances	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2023 (continued)

Bank, Assets (continued) **Per IFRS** **(in EUR million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,141**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,141**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	*1,141*	-	-	-	-	-	-	-	-	*1,141*
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at amortised cost	**-**	**-**	**-**	**-**	**-**	**1,432**	**8,274**	**243**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,949**
Debt securities	-	-	-	-	-	-	-	*243*	-	-	-	-	-	-	-	-	*243*
Loans and advances	-	-	-	-	-	*1,432*	*8,274*	-	-	-	-	-	-	-	-	-	*9,706*
Derivatives – Hedge accounting	-	-	-	22	-	-	-	-	-	-	-	-	-	-	-	-	**22**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2023 (continued)

Bank, Assets (continued) **Per IFRS** **(in EUR million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	Total assets
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	8	-	-	-	-	-	-	-	-	-	-	-	**8**
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	245	-	-	-	-	-	-	-	**245**
Tangible assets	-	-	-	-	-	-	-	-	-	-	142	3	-	-	-	-	**145**
Intangible assets	-	-	-	-	-	-	-	-	-	48	-	-	-	-	-	-	**48**
Tax assets	-	-	-	-	-	-	-	-	-	-	-	-	-	16	-	-	**16**
Other assets	-	-	-	-	-	-	4	-	-	-	-	-	-	-	25	-	**29**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2023 (continued)

Bank, Assets (continued) **Per IFRS** **(in EUR million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	Total assets
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	**1**
Transfer to provisions	-	-	-	-	-	-	(7)	-	-	-	-	-	-	-	-	-	**(7)**
Total assets	**1,087**	**3,334**	**51**	**22**	**8**	**1,507**	**8,271**	**1,393**	**245**	**48**	**142**	**3**	**1**	**16**	**25**	**-**	**16,153**

Appendix 1 – Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2023 (continued)

Bank, Liabilities **Per IFRS** **(in EUR million)**

CNB schedules	Current accounts and deposits from banks	Current accounts and deposits from customers	Derivative financial liabilities	Interest-bearing borrowings	Senior non-preferred and subordinated debt	Other liabilities	Accrued expenses and deferred income	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	**Total 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 amortised cost	149	12,839	-	438	135	45	-	-	-	-	**13,606**
Deposits	*149*	*12,839*	-	*403*	*135*	-	-	-	-	-	***13,526***
Debt securities issued	-	-	-	-	-	-	-	-	-	-	**-**
Other financial liabilities	-	-	-	*35*	-	*45*	-	-	-	-	***80***
Derivatives – Hedge accounting	-	-	29	-	-	-	-	-	-	-	**29**

Appendix 1 – Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2023 (continued)

Bank, Liabilities (continued) **Per IFRS** **(in EUR million)**

CNB schedules	Current accounts and deposits from banks	Current accounts and deposits from customers	Derivative financial liabilities	Interest-bearing borrowings	Senior non-preferred and subordinated debt	Other liabilities	Accrued expenses and deferred income	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	Total liabilities
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	-	-	-	-	**-**
Provisions	-	-	-	-	-	-	-	98	-	-	**98**
Tax liabilities	-	-	-	-	-	-	-	-	4	32	**36**
Share capital repayable on demand	-	-	-	-	-	-	-	-	-	-	**-**
Other liabilities	-	-	-	-	-	113	24	-	-	-	**137**
Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	**-**
Transfer from loans and advances to customers	-	-	-	-	-	-	-	(7)	-	-	**(7)**
Total liabilities	**149**	**12,839**	**29**	**438**	**135**	**158**	**24**	**91**	**4**	**32**	**13,899**

Appendix 1 – Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2023 (continued)

Bank, Equity **Per IFRS** **(in EUR million)**

CNB schedules	Share capita	Share premium	Other reserves	Fair value reserve	Retained earnings	**Total equity**
Share capital	244	-	-	-	-	**244**
Share premium	-	208	-	-	-	**208**
Equity instruments issued other than capital	-	-	-	-	-	**-**
Other equity	-	-	-	-	-	**-**
Accumulated other comprehensive income	-	-	-	(6)	-	**(6)**
Retained earnings	-	-	-	-	1,476	**1,476**
Revaluation reserves	-	-	22	-	-	**22**
Other reserves	-	-	(4)	-	-	**(4)**
(-) Treasury shares	-	-	-	-	-	**-**
Profit or loss attributable to owners of the parent	-	-	-	-	314	**314**
(-) Interim dividends	-	-	-	-	-	**-**
Minority interests [Non-controlling interests]	-	-	-	-	-	**-**
Total equity	**244**	**208**	**18**	**(6)**	**1,790**	**2,254**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Income statement"

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Interest income	689	360	508	267
(Interest expense)	(57)	(26)	(36)	(16)
(Expenses on share capital repayable on demand)	-	-	-	-
Dividend income	1	-	32	46
Fee and commission income	261	273	157	149
(Fee and commission expenses)	(65)	(60)	(46)	(41)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	1	-	1	-
Gains or (-) losses on financial assets and liabilities held for trading, net	18	40	18	38
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	3	-	2	-
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-	-
Gains or (-) losses from hedge accounting, net	1	-	1	-
Exchange differences [gain or (-) loss], net	4	(6)	1	(9)
Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates	-	-	-	-
Gains or (-) losses on derecognition of non-financial assets, net	118	1	-	-
Other operating income	18	23	9	8
(Other operating expenses)	(44)	(53)	(21)	(18)
Total operating income, net	**948**	**552**	**626**	**424**
(Administrative expenses)	(270)	(249)	(181)	(168)
(Payment commitments to resolution funds and deposit guarantee schemes)	(17)	(15)	(12)	(10)
(Depreciation)	(38)	(33)	(27)	(24)
Modification gains or (-) losses, net	1	4	1	4
(Provisions or (-) reversal of provisions)	(19)	(18)	(16)	(10)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(28)	(7)	(11)	6
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-	-	-

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Income statement" (continued)

(in EUR million)

	GROUP		BANK	
	2023	2022	2023	2022
(Impairment or (-) reversal of impairment on non-financial assets)	-	-	-	-
Negative goodwill recognised in profit or loss	-	-	-	-
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	1	1	-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	1	1	-	-
Profit or (-) loss before tax from continuing operations	**579**	**236**	**380**	**222**
(Tax expense or (-) income related to profit or loss from continuing operations)	(107)	(42)	(66)	(32)
Profit or (-) loss before after from continuing operations	**472**	**194**	**314**	**190**
Profit or (-) loss after tax from discontinued operations		-		-
Profit or (-) loss before tax from discontinued operations	-	-	-	-
(Tax expense or (-) income related to discontinued operations)	-	-	-	-
Profit or (-) loss for the year	**472**	**194**	**314**	**190**
Attributable to minority interest [non-controlling interests]	35	8	-	-
Attributable to owners of the parent	437	186	314	190

The income statement form is prepared in accordance with the CNB Decision on the Structure and Content of Annual Financial Statements for Banks.

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Income statement" (continued)

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Net profit for the year	**472**	**194**	**314**	**190**
Other comprehensive income	**20**	**(18)**	**13**	**(15)**
Items that will not be reclassified to profit or loss	**7**	**2**	**3**	**1**
Tangible assets	9	-	4	-
Intangible assets	-	-	-	-
Actuarial gains (losses) on defined benefit pensions plans	-	2	-	-
Non-current assets and disposal groups classified as held for sale	-	-	-	-
Share of other recognized revenues and costs 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	(2)	-	(1)	1
Items that are or may be reclassified to profit or loss	**13**	**(20)**	**10**	**(16)**
Hedge of net investments in foreign operations [effective portion]	-	-	-	-
Foreign currency translation	-	1	-	-
Cash flow hedges [effective portion]	-	-	-	-
Hedging instruments [not designated elements]	-	-	-	-

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Income statement" (continued)

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Debt instruments at fair value through other comprehensive income	15	(24)	12	(19)
Non-current assets and disposal groups held for sale	-	-	-	-
Share of other recognised income and expense of Investments in subsidiaries, joint ventures and associates	-	-	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	(2)	3	(2)	3
Total comprehensive income for the year	**492**	**175**	**327**	**175**
Attributable to:				
Equity holders of the Bank	457	169	327	175
Non-controlling interests	35	7	-	-
	492	**176**	**327**	**175**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2023

Group **Per IFRS** **(in EUR million)**

CNB schedules	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Fair value adjustment in hedge accounting	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Share of profits from associates	Income tax expense	**Profit for the year**
Interest income	689	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**689**
(Interest expense)	-	(57)	-	-	-	-	-	-	-	-	-	-	-	-	-	**(57)**
(Expenses on share capital repayable on demand)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividend income	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	**1**
Fee and commission income	-	-	261	-	-	-	-	-	-	-	-	-	-	-	-	**261**
(Fee and commission expenses)	-	-	-	(65)	-	-	-	-	-	-	-	-	-	-	-	**(65)**
Gains or (-) losses on derecognition of financial assets and liabilities not	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	**1**

measured at fair value through profit or loss, net																
Gains or (-) losses on financial assets and liabilities held for trading, net	-	-	-	-	-	18	-	-	-	-	-	-	-	-	-	18
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	-	-	-	-	-	3	-	-	-	-	-	-	-	-	-	3
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains or (-) losses from hedge accounting, net	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	1
Exchange differences [gain or (-) loss], net	-	-	-	-	-	4	-	-	-	-	-	-	-	-	-	4
Gains or (-) losses on derecognition of investments in	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

subsidiaries, joint ventures and associates																
Gains or (-) losses on derecognition of non-financial assets, net	-	-	-	-	-	-	-	118	-	-	-	-	-	-	-	118
Other operating income	-	-	-	-	-	-	-	13	-	-	-	-	5	-	-	18
(Other operating expenses)	-	-	-	-	-	-	-	-	-	-	-	-	(44)	-	-	(44)
Total operating income, net	**689**	**(57)**	**261**	**(65)**	**1**	**25**	**1**	**131**	**1**	**-**	**-**	**-**	**(39)**	**-**	**-**	**948**
(Administrative expenses)	-	-	-	-	-	-	-	-	-	1	(163)	-	(108)	-	-	(270)
(Payment commitments to resolution funds and deposit guarantee schemes)	-	-	-	-	-	-	-	-	-	-	-	-	(17)	-	-	(17)
(Depreciation)	-	-	-	-	-	-	-	-	-	-	-	(38)	-	-	-	(38)
Modification gains or (-) losses, net	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	1
(Provisions or (-) reversal of provisions	1	-	-	-	-	-	-	-	-	(20)	-	-	-	-	-	(19)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through	-	-	-	-	-	-	-	-	(28)	-	-	-	-	-	-	(28)

profit or loss)																
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Impairment or (-) reversal of impairment on non-financial assets)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Negative goodwill recognised in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	1
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	1

qualifying as discontinued operations																
Profit or (-) loss before tax from continuing operations	**690**	**(57)**	**261**	**(65)**	**1**	**25**	**1**	**131**	**(26)**	**(19)**	**(163)**	**(38)**	**(163)**	**1**	**-**	**579**
(Tax expense or (-) income related to profit or loss from continuing operations)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(107)**	**(107)**
Profit or (-) loss after tax from continuing operations	**690**	**(57)**	**261**	**(65)**	**1**	**25**	**1**	**131**	**(26)**	**(19)**	**(163)**	**(38)**	**(163)**	**1**	**(107)**	**472**
Profit or (-) loss after tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit or (-) loss before tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
(Tax expense or (-) income related to discontinued operations)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit or (-) loss for the year	**690**	**(57)**	**261**	**(65)**	**1**	**25**	**1**	**131**	**(26)**	**(19)**	**(163)**	**(38)**	**(163)**	**1**	**(107)**	**472**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2023 (continued)

Bank | **Per IFRS** | **(in EUR million)**

CNB schedules	Interest income	Interest expense	Fee and commission- on income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Fair value adjustment in hedge accounting	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Income tax expense	**Profit for the year**
Interest income	508	-	-	-	-	-	-	-	-	-	-	-	-	-	**508**
(Interest expense)	-	(36)	-	-	-	-	-	-	-	-	-	-	-	-	**(36)**
(Expenses on share capital repayable on demand)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividend income	-	-	-	-	32	-	-	-	-	-	-	-	-	-	**32**
Fee and commission income	-	-	157	-	-	-	-	-	-	-	-	-	-	-	**157**
(Fee and commission expenses)	-	-	-	(46)	-	-	-	-	-	-	-	-	-	-	**(46)**
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	-	-	-	-	-	-	-	1	-		-	-	-	**1**

Gains or (-) losses on financial assets and liabilities held for trading, net	-	-	-	-	-	18	-	-	-	-	-	-	-	-	**18**
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	-	-	-	-	-	2	-	-	-	-	-	-	-	-	**2**
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Gains or (-) losses from hedge accounting, net	-	-	-	-	-	-	1	-	-	-	-	-	-	-	**1**
Exchange differences [gain or (-) loss], net	-	-	-	-	-	1	-	-	-	-	-	-	-	-	**1**
Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Gains or (-) losses on derecognition of non-financial assets, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Other operating income	-	-	-	-	-	-	-	7	-	-	-	-	2	-	**9**

(Other operating expenses)	-	-	-	-	-	-	-	-	-	-	-	-	(21)	-	**(21)**
Total operating income, net	**508**	**(36)**	**157**	**(46)**	**32**	**21**	**1**	**7**	**1**	**-**	**-**	**-**	**(19)**	**-**	**626**
(Administrative expenses)	-	-	-	-	-	-	-	-	-	1	(104)	-	(78)	-	**(181)**
(Payment commitments to resolution funds and deposit guarantee schemes)	-	-	-	-	-	-	-	-	-	-	-	-	(12)	-	**(12)**
(Depreciation)	-	-	-	-	-	-	-	-	-	-	-	(27)	-	-	**(27)**
Modification gains or (-) losses, net	-	-	-	-	-	-	-	-	1	-	-	-	-	-	**1**
(Provisions or (-) reversal of provisions	1	-	-	-	-	-	-	-	-	(17)	-	-	-	-	**(16)**
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	-	-	-	-	-	-	-	-	(11)	-	-	-	-	-	**(11)**
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
(Impairment or (-) reversal of impairment on non-financial assets)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Negative goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

recognised in profit or loss															
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit or (-) loss before tax from continuing operations	**509**	**(36)**	**157**	**(46)**	**32**	**21**	**1**	**7**	**(9)**	**(16)**	**(104)**	**(27)**	**(109)**	**-**	**380**
(Tax expense or (-) income related to profit or loss from continuing operations)	-	-	-	-	-	-	-	-	-	-	-	-	-	(66)	**(66)**
Profit or (-) loss after tax from continuing operations	**509**	**(36)**	**157**	**(46)**	**32**	**21**	**1**	**7**	**(9)**	**(16)**	**(104)**	**(27)**	**(109)**	**(66)**	**314**
Profit or (-) loss after tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

Profit or (-) loss before tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Tax expense or (-) income related to discontinued operations)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit or (-) loss for the year	**509**	**(36)**	**157**	**(46)**	**32**	**21**	**1**	**7**	**(9)**	**(16)**	**(104)**	**(27)**	**(109)**	**(66)**	**314**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Cash flow statement"

(in EUR million)

	GROUP 2023	GROUP 2022	BANK 2023	BANK 2022
Cash flow from operating activities				
Profit/(loss) before tax	579	236	380	222
Adjustments:				
Impairment losses	45	25	25	5
Depreciation and amortization	38	33	27	24
Unrealised (gains)/losses on securities at fair value through profit or loss	(5)	(5)	(4)	16
(Gains)/losses from sale of tangible assets	(119)	(2)	-	-
Other (gains)/losses	-	(4)	(1)	(4)
Changes in assets and liabilities due to operating activities				
Deposits with the Croatian National Bank	-	667	-	602
Deposits with banking institutions and loans to financial institutions	19	(224)	749	(108)
Loans to other clients	(747)	(698)	(598)	(565)
Securities and other financial instruments at FVOCI	(122)	(87)	(130)	(94)
Securities and other financial instruments held for trading	26	86	24	66
Securities and other financial instruments at fair value through profit or loss which are not actively traded	-	-	-	-
Securities and other financial instruments mandatorily at FVTPL	(1)	3	(1)	2
Securities and other financial instruments at amortised cost	(21)	(21)	(4)	(10)
Other operating assets	(1,385)	(285)	(1,890)	6
Financial institutions deposits	146	(149)	(75)	(29)
Other clients demand deposits	(1,118)	(1,704)	1,281	1,346
Other clients' savings deposits	1,821	(617)	(1,821)	773
Other clients term deposits	(1,144)	102	700	(206)
Derivative financial liabilities and other liabilities held for trading	31	(11)	28	1
Other liabilities	768	4,260	76	(123)
Interest received	655	315	474	222
Dividends received	-	-	-	-
Interest paid	(71)	(27)	(49)	(20)
(Income tax paid)	(53)	(37)	(43)	(29)
Net inflow/(outflow) of cash from operating activities	**(658)**	**1,856**	**(852)**	**2,097**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Cash flow statement" (continued)

(in EUR million)

		GROUP		**BANK**
	2023	2022	2023	2022
Investing activities				
Cash receipts from/ (payments to acquire) tangible and intangible assets	61	(26)	(35)	(29)
Cash receipts from the disposal of/ (payments for the investment in) subsidiaries, associates and joint ventures	-	-	-	21
Cash receipts from sales of/ (cash payments to acquire) securities and other financial instruments held until maturity	-	-	-	-
Dividends received	-	-	32	46
Other receipts from/ (payments for) investments	-	-		-
Net cash flow from investing activities	**61**	**(26)**	**(3)**	**38**
Financing activities	**(597)**	**1,830**	**(855)**	**2,135**
Net increase/(decrease) in received loans	(3)	276	4	(43)
Net increase/(decrease) in issued debt securities	-	-	-	-
Net increase/(decrease) in subordinated and hybrid instruments	-	-	-	-
Proceeds from issue of share capital	-	-	-	-
(Dividends paid)	(189)	(148)	(189)	(148)
Other proceeds/(payments) from financing activities	-	-		-
Net cash flow from financing activities	**(192)**	**128**	**(185)**	**(191)**
Net increase/(decrease) in cash and cash equivalents	**(789)**	**1,958**	**(1,040)**	**1,944**
Cash and cash equivalents at the beginning of the year	**7,265**	**5,308**	**6,131**	**4,188**
Effect of foreign exchange differences on cash and cash equivalents	-	(1)	-	(1)
Cash and cash equivalents at the end of the year	**6,476**	**7,265**	**5,091**	**6,131**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Cash flow statement reconciliation for the year ended 31 December 2023

(in EUR million)

	GROUP			**BANK**		
	CNB schedules	per IFRS	Differences	CNB schedules	per IFRS	Differences
Cash flow from operating activities						
Profit before income tax	579	579	-	380	380	-
Impairment losses on loans and advances to customers	-	26	26	-	9	9
Other impairment losses and provisions	-	19	19	-	16	16
Impairment losses	45	-	(45)	25	-	(25)
Gain on disposal of property and equipment and intangible assets	(119)	-	119	-	-	-
Depreciation and amortisation	38	38	-	27	27	-
Net losses from securities at fair value through profit or loss	(5)	(4)	1	(4)	(3)	1
Share of profits from associates	-	(1)	(1)	-	-	-
Net interest income	-	(633)	(633)	-	(473)	(473)
Net gain on disposal of associate	-	-	-	-	-	-
Net gain/loss on disposal of securities not measured at FVTPL	-	-	-	-	-	-
Dividend income	-	(1)	(1)	-	(32)	(32)
Other gains/(losses)	-		-	(1)		1
Cash flow from operating activities before changes in operating assets	**538**	**23**	(515)	**427**	**(76)**	(503)
(Increase)/decrease in operating assets						
Balances with the Croatian National Bank	-	(4)	(4)	-	-	-
Loans and advances to banks	19	(500)	(519)	749	(540)	(1,289)
Loans and advances to customers	(747)	(1,034)	(287)	(598)	(770)	(172)
Financial assets at FVTPL and FVOCI	-	(42)	(42)	-	14	14
Securities and other financial instruments at FVOCI	(122)	-	122	(130)	-	130
Securities and other financial instruments held for trading	26	-	(26)	24	-	(24)
Securities and other financial instruments mandatorily at FVTPL	-	-	-	-	-	-

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Cash flow statement reconciliation for the year ended 31 December 2023 (continued)

(in EUR million)

	GROUP			BANK		
	CNB schedules	per IFRS	Differences	CNB schedules	per IFRS	Differences
Securities and other financial instruments at amortised cost	(21)	-	21	(4)	-	4
Other assets	(1,385)	171	1,556	(1,890)	(20)	1,870
Net (increase)/decrease in operating assets	***(2,231)***	***(1,409)***	822	***(1,850)***	***(1,316)***	534
Increase/(decrease) in operating liabilities						
Current accounts and deposits from banks	146	(147)	(293)	(75)	(78)	(3)
Current accounts and deposits from customers	-	482	482	-	187	187
Other clients demand deposits	(1.118)	-	1.118	1.281	-	(1.281)
Other clients' savings deposits	1.821	-	(1.821)	(1.821)	-	1.821
Other clients term deposits	(1.144)	-	1.144	700	-	(700)
Derivative financial liabilities and other liabilities held for trading	31	-	(31)	28	-	(28)
Other liabilities	768	67	(701)	76	57	(19)
Net increase/(decrease) in operating liabilities	***504***	***402***	(102)	***189***	***166***	(23)
Interest received	655	655	-	474	474	-
Interest paid	(71)	(71)	-	(49)	(49)	-
Dividends received	-	2	2	-	32	32
Net cash flow from operating activities	**(605)**	**(398)**	207	**(809)**	**(769)**	40
(Income tax paid)	(53)	(53)	-	(43)	(43)	-
Net inflow/(outflow) of cash from operating activities	**(658)**	**(451)**	207	**(852)**	**(812)**	40
Investing activities						
Purchase of property and equipment and intangible assets	61	(72)	(133)	(35)	(34)	1
Disposal of property and equipment and intangible assets	-	2	2	-	2	2
Cash paid from sale of non-current assets held for sale	-	(119)	(119)	-	-	-
Dividends received	-	-	-	32	-	(32)
Net cash flow from investing activities	**61**	**(189)**	(250)	**(3)**	**(32)**	(29)

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Cash flow statement reconciliation for the year ended 31 December 2023 (continued)

(in EUR million)

			GROUP			**BANK**
	CNB schedules	per IFRS	Differ-ences	CNB schedules	per IFRS	Differ-ences
Financing activities						
Dividends paid	(189)	(189)	-	(189)	(189)	-
Increase in interest-bearing borrowings	(3)	57	60	4	6	2
Cash paid for IFRS 16 leases	-	(17)	(17)	-	(13)	(13)
Net cash flow from financing activities	**(192)**	**(149)**	43	**(185)**	**(196)**	(11)
Net increase/(decrease) in cash and cash equivalents	**(789)**	**(789)**	-	**(1,040)**	**(1,040)**	-
Cash and cash equivalents as at 1 January	**7,265**	**7,265**	-	**6,131**	**6,131**	-
Cash and cash equivalents at the end of the year	**6,476**	**6,476**	-	**5,091**	**5,091**	-

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity"

Group | **Per IFRS** | **(in EUR million)**

												Minority interests		
CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	**Total**
Balance at 1 January 2022	**249**	**208**	**-**	**-**	**(16)**	**1,739**	**43**	**(37)**	**-**	**186**	**-**	**(2)**	**161**	**2,531**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Balance at 1 January 2022	**249**	**208**	**-**	**-**	**(16)**	**1,739**	**43**	**(37)**	**-**	**186**	**-**	**(2)**	**161**	**2,531**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends	-	-	-	-	-	-	-	-	-	(189)	-	-		**(189)**
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Sale or cancellation of treasury shares	(5)	-	-	-	-	-	-	5		-	-	-	-	**-**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Group **Per IFRS** **(in EUR million)**

CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Minority interests Accumulated Other Comprehensive Income	Other items	**Total**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	-	-	(8)	-	8	-		-	-	-	**-**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share based payments	-	-	-	-	-	-	-		-	-	-	-	-	**-**
Other increase or (-) decrease in equity	-	-	-	-	-	2	(2)	-	-	-	-	-	-	**-**
Total comprehensive income for the year	-	-	-	-	11	2	7		-	437	-	-	35	**492**
Balance at 31 December 2022	**244**	**208**	**-**	**-**	**(5)**	**1,735**	**48**	**(24)**	**-**	**434**	**-**	**(2)**	**196**	**2,834**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Group **Per IFRS** **(in EUR million)**

												Minority interests		
CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	**Total**
Balance at 1 January 2021	**253**	**208**	**-**	**-**	**-**	**1,676**	**43**	**31**	**(37)**	**178**	**-**	**(1)**	**161**	**2,512**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Balance at 1 January 2021	**253**	**208**	**-**	**-**	**-**	**1,676**	**43**	**31**	**(37)**	**178**	**-**	**(1)**	**161**	**2,512**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Group **Per IFRS** **(in EUR million)**

												Minority interests		
CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	**Total**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends	-	-	-	-	-	-	-	-	-	(148)	-	-	(8)	**(156)**
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Sale or cancellation of treasury shares	(4)	-	-	-	-	36	-	(69)	37	-	-	-	-	**-**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	-	-	30	-	-	-	(30)	-	-	-	**-**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Other increase or (-) decrease in equity	-	-	-	-	(1)	1	(1)	-	-	-	-	-	-	**(1)**
Total comprehensive income for the year	-	-	-	-	(15)	(4)	1	1	-	186	-	(1)	8	**176**
Balance at 31 December 2022	**249**	**208**	**-**	**-**	**(16)**	**1,739**	**43**	**(37)**	**-**	**186**	**-**	**(2)**	**161**	**2,531**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Bank **Per IFRS** **(in EUR million)**

												Minority interests		
CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	**Total**
Balance at 1 January 2022	**249**	**208**	**-**	**-**	**(14)**	**1,470**	**21**	**(9)**	**-**	**190**	**-**	**-**	**-**	**2,115**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	
Balance at 1 January 2022	**249**	**208**	**-**	**-**	**(14)**	**1,470**	**21**	**(9)**	**-**	**190**	**-**	**-**	**-**	**2,115**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	(5)	-	-	-	-	-	-	5	-	-	-	-	-	**-**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Bank **Per IFRS** **(in EUR million)**

CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Minority interests Accumulated Other Comprehensive Income	Minority interests Other items	**Total**
Dividends	-	-	-	-	-	-	-	-	-	(189)	-	-	-	**(189)**
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Bank **Per IFRS** **(in EUR million)**

												Minority interests		
CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	**Total**
Other increase or (-) decrease in equity	-	-	-	-	-	4	(2)	-	-	(1)	-	-	-	**1**
Total comprehensive income for the year	-	-	-	-	8	2	3	-	-	314	-	-	-	**327**
Balance at 31 December 2022	**244**	**208**	**-**	**-**	**(6)**	**1,476**	**22**	**(4)**	**-**	**314**	**-**	**-**	**-**	**2,254**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Bank **Per IFRS** **(in EUR million)**

												Minority interests		
CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	**Total**
Balance at 1 January 2021	**253**	**208**	**-**	**-**	**(1)**	**1,420**	**21**	**59**	**(36)**	**148**	**-**	**-**	**-**	**2,072**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Balance at 1 January 2021	**253**	**208**	**-**	**-**	**(1)**	**1,420**	**21**	**59**	**(36)**	**148**	**-**	**-**	**-**	**2,072**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends	-	-	-	-	-	-	-	-	-	(148)	-	-	-	**(148)**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Bank **Per IFRS** **(in EUR million)**

												Minority interests		
CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	**Total**
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Sale or cancellation of treasury shares	(4)	-	-	-	-	36	-	(68)	36	-	-	-	-	**-**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	17	-	1	-	-	-	-	-	**18**
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Other increase or (-) decrease in equity	-	-	-	-	(1)	1	(1)	-	-	-	-	-	-	**(1)**
Total comprehensive income for the year	-	-	-	-	(12)	(4)	-	-	-	190	-	-	-	**174**
Balance at 31 December 2022	**249**	**208**	**-**	**-**	**(14)**	**1,470**	**20**	**(8)**	**-**	**190**	**-**	**-**	**-**	**2,115**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Main differences between statutory financial report and supplementary forms required by local regulation

The main differences between the Statements of financial position captions disclosed in the statutory financial statements, and those prescribed by the CNB Decision relate to the following categories:

- Loans and advances are separated to customers and banks in statutory financial statements, while in CNB schedule there is only aggregated category Loans and advances;
- Mandatory reserve is disclosed within Cash and current accounts with other banks in statutory financial statements and within Cash and deposits with the Croatian National Bank in CNB schedule;
- Deposits who are separated to customers and banks in statutory financial statements, while in CNB schedule there is only aggregated category Deposits;
- Interest bearing liabilities and senior non-preferred and subordinated debt are separately disclosed in statutory financial statements, while in CNB schedule there is only aggregated category Deposits.

The main differences between the Income statement captions disclosed in the statutory financial statements, and those prescribed by the CNB Decision relate to the following categories:

- Effects arising from unwinding of discount related to loss allowance ("time value") are disclosed as interest income in statutory financial statements, while in CNB schedule are presented within Impairment of financial assets not measured at fair value.
- Positions Gains or losses on derecognition of financial assets and liabilities not measured at FVTPL, gains or losses on financial assets and liabilities held for trading and gains or losses on non-trading financial assets mandatorily measured at fair value from CNB schedule are disclosed aggregately in statutory financial statements on position Net trading income and translation of monetary assets and liabilities.
- Administrative expenses in CNB schedule contain Personnel expenses and Other operating expenses from statutory financial statements.

Appendix 2 – Other legal and regulatory requirements

The Bank in accordance with Article 164 of the Credit Institutions Act, publishes the following information:

The Bank and the Group are providing the following banking services and core and ancillary financial services:

- acceptance of deposits or other repayable funds from the public and the approval of loans out of such funds, for its own account;
- acceptance of deposits or other repayable funds;
- lending, including consumer credit, mortgage credit and, where permitted by a special law, financing of commercial transactions, including export financing based on the purchase at a discount without recourse of noncurrent, non-matured receivables collateralised with a financial instrument (forfeiting);
- repurchase of receivables with or without recourse (factoring);
- financial and operating leasing;
- issuance of guarantees or other commitments;
- trading for own account or for the account of clients in: money market instruments; transferable securities; foreign exchange, including currency exchange transactions; financial futures and options; exchange and interest-rate instruments;
- payment services, in accordance with special laws;
- credit reference services, such as collection, analysis and provision of information on the creditworthiness of legal and natural persons that conduct their business independently;
- issuing and administering other means of payment, if the provision of such services is not considered the provision of money transmission services in the country and abroad;
- safe custody services;
- money broking;
- activities related to the sale of insurance policies in accordance with the law governing insurance;
- advice on capital structure, industrial strategy and related matters, and advice and services relating to mergers and the purchase of shareholdings;
- investment and ancillary services and activities prescribed by a special act governing the capital market that are not included in the previously listed core financial services;
- issuance of electronic money;
- property transaction services, real estate valuation, financial and technical supervision over the construction of real estate;
- compulsory pension fund management.

The Group operates on markets in Croatia, Slovenia and Bosnia and Herzegovina.

	Croatia	Bosnia and Herzegovina	Slovenia
Total gross revenue	864	62	183
Profit before tax	475	16	88
Income tax	89	2	16
The number of workers on the basis of equivalent full working time in 2023	3,496	586	711