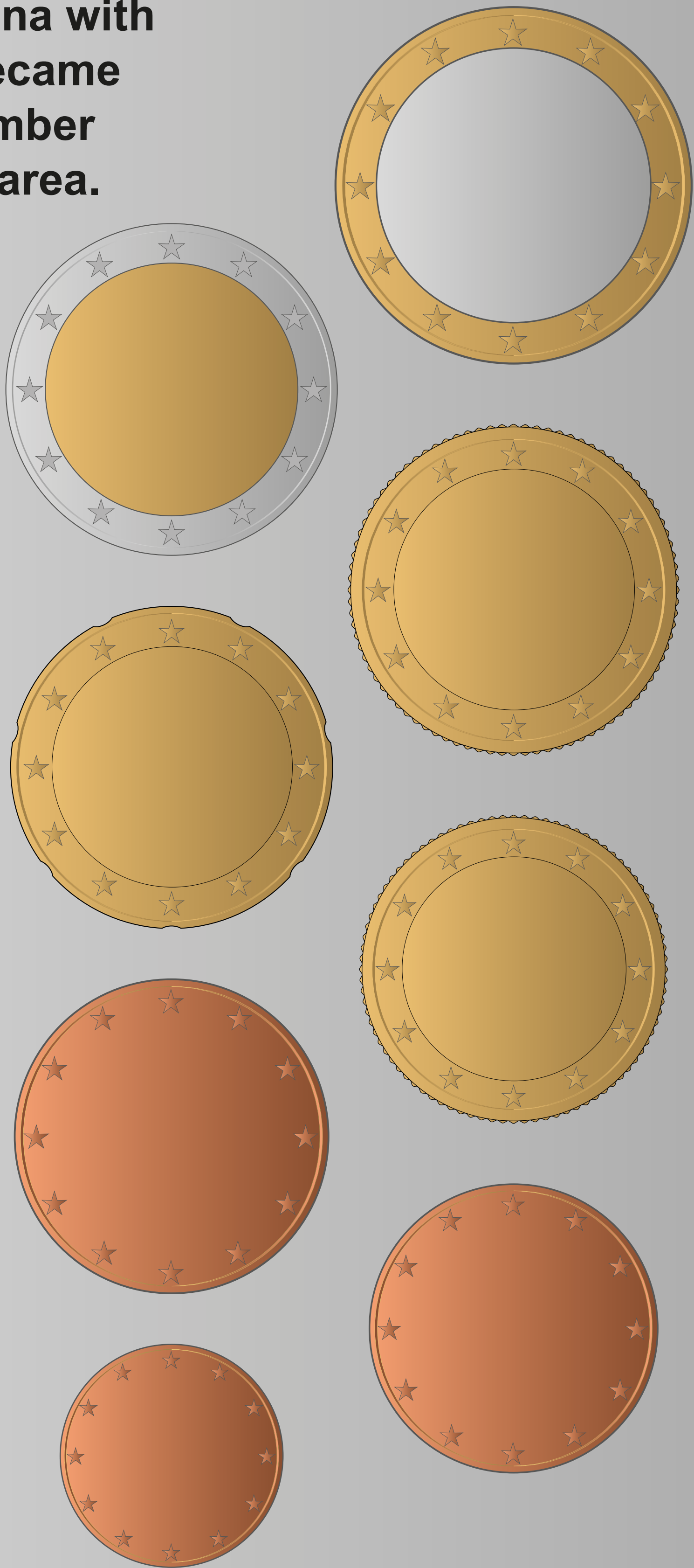
HPB

Annual report for 2023

Euro is here!

Report in PDF format is unofficial report.
Official report is publicly available in European Single Electronic Format

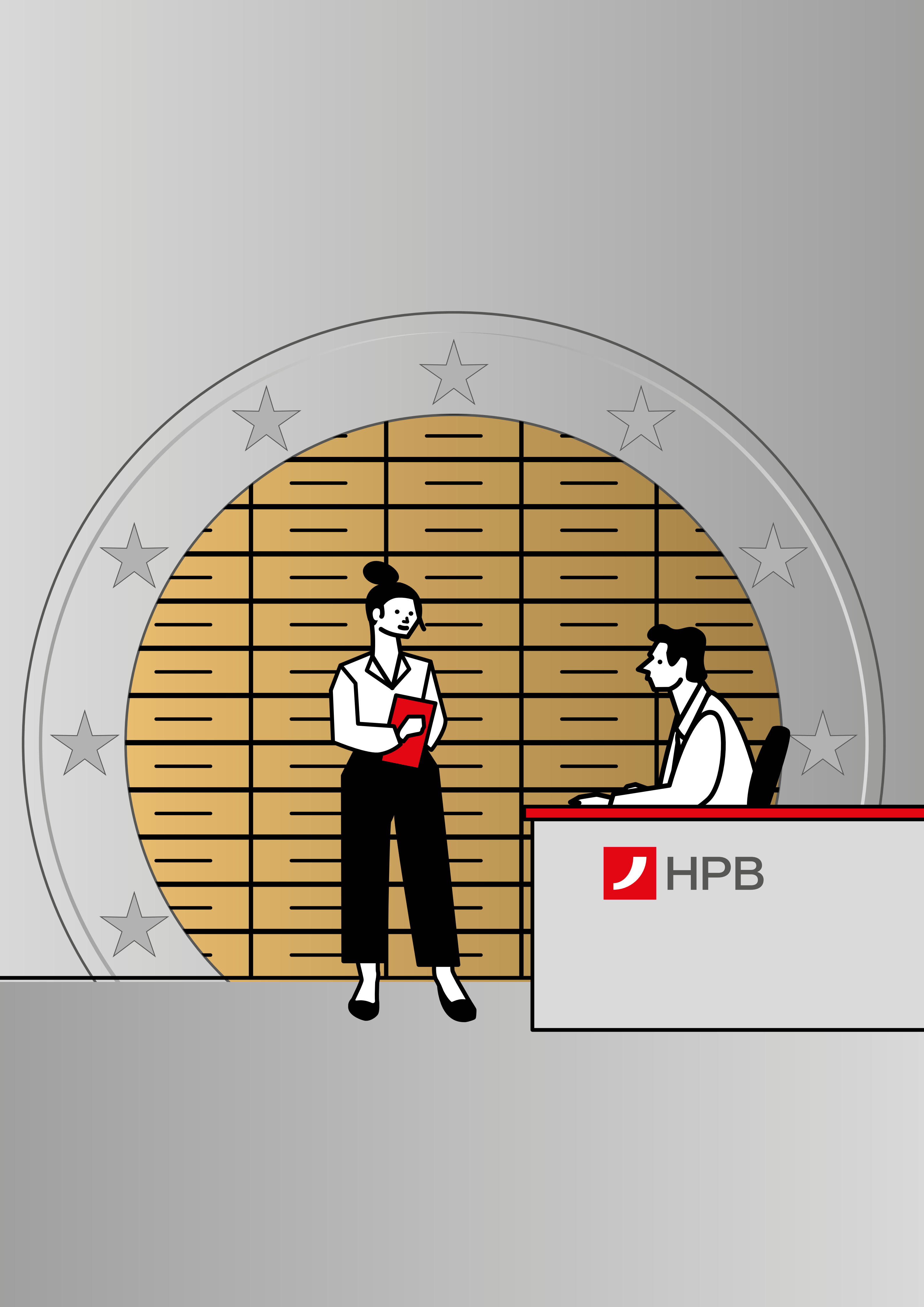
On January 1, 2023, the Republic of Croatia replaced kuna with euro and became the 20th member of the euro area.



HRVATSKA POŠTANSKA BANKA

Annual report for 2023

Zagreb, March 2024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Content

Introduction

The Annual report includes a summary of financial information, description of operations and audited financial reports together with the independent auditor's opinion for the year ended December 31, 2023, in English language. Original and official Annual report is published in Croatian.

Legal status

The Annual report includes the annual financial reports prepared in accordance with statutory accounting requirements for banks in Republic of Croatia and audited in accordance with International Standards on Auditing.

The Annual report has been prepared in accordance with the Accounting Act and the Companies Act that require reporting to shareholders at the annual shareholders' meeting of the Management Board. According to the Accounting Law the statutory financial reports are report of financial position, PNL report with a report of comprehensive income, report of changes in equity, cash flow report and notes to the financial reports, and the Companies Act, in accordance Article 250.a and 250.b, prescribes the obligation to submit an annual report on the state of the Bank, and other members of HPB Group.

Abbreviations

In the Annual report Hrvatska poštanska banka p.l.c. is referred to as «the Bank» or «HPB», Hrvatska poštanska banka Group is referred to as «the HPB Group» or just «the Group», the Croatian National Bank is referred to as «the CNB» or «HNB», Republic of Croatia is referred to as «RH» or «HR» and the Croatian Bank for Reconstruction and Development is referred to as «the CBRD» or «HBOR».

Exchange rates

For the purpose of translation of foreign currencies into Croatian Kuna, the following exchange rates of the CNB were used:

December 31, 2023 .... **1 USD = 0.904977 EUR**

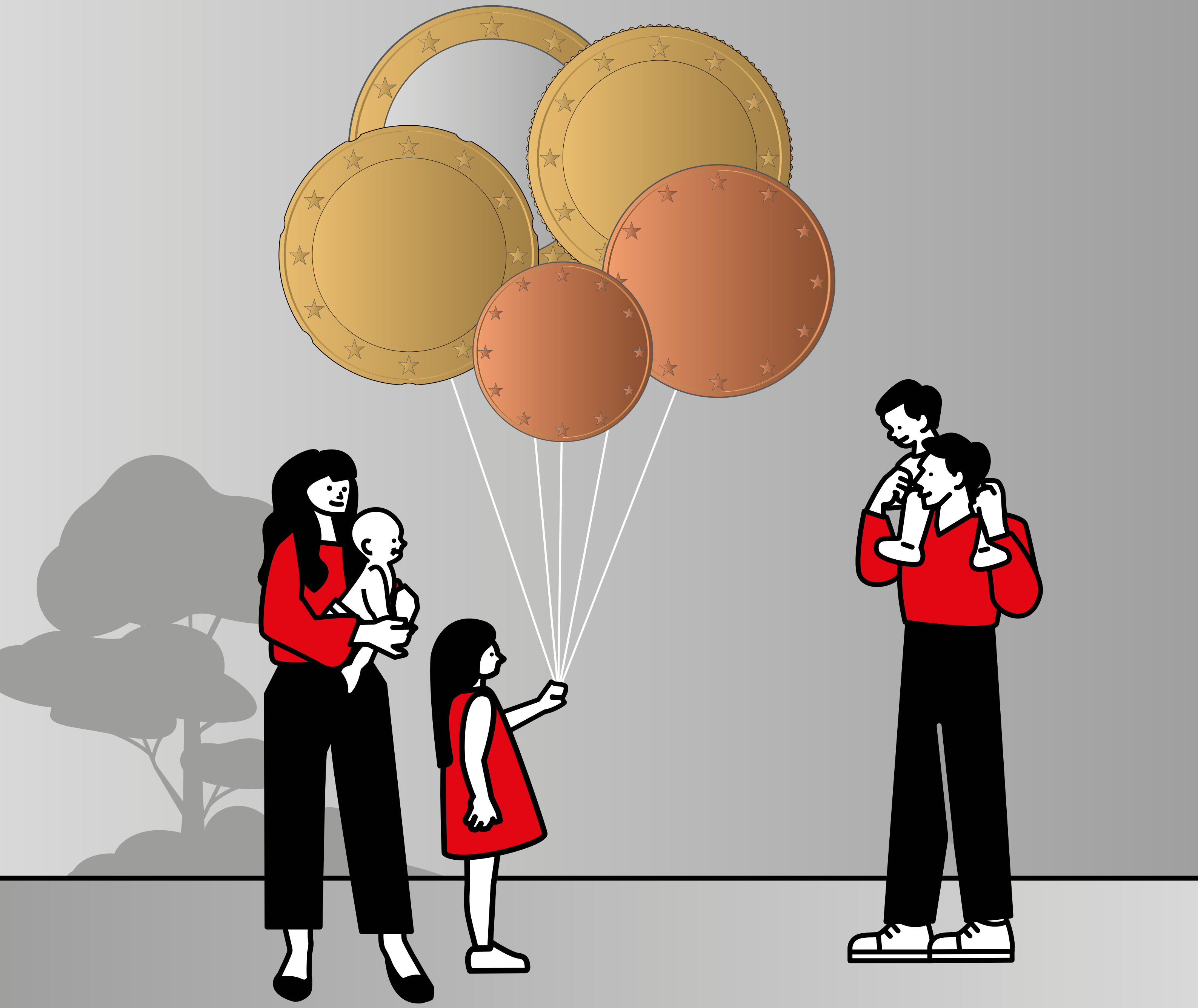
December 31, 2022 ....**1 EUR = 7.53450 KN** ....**1 USD = 0.883783 EUR**

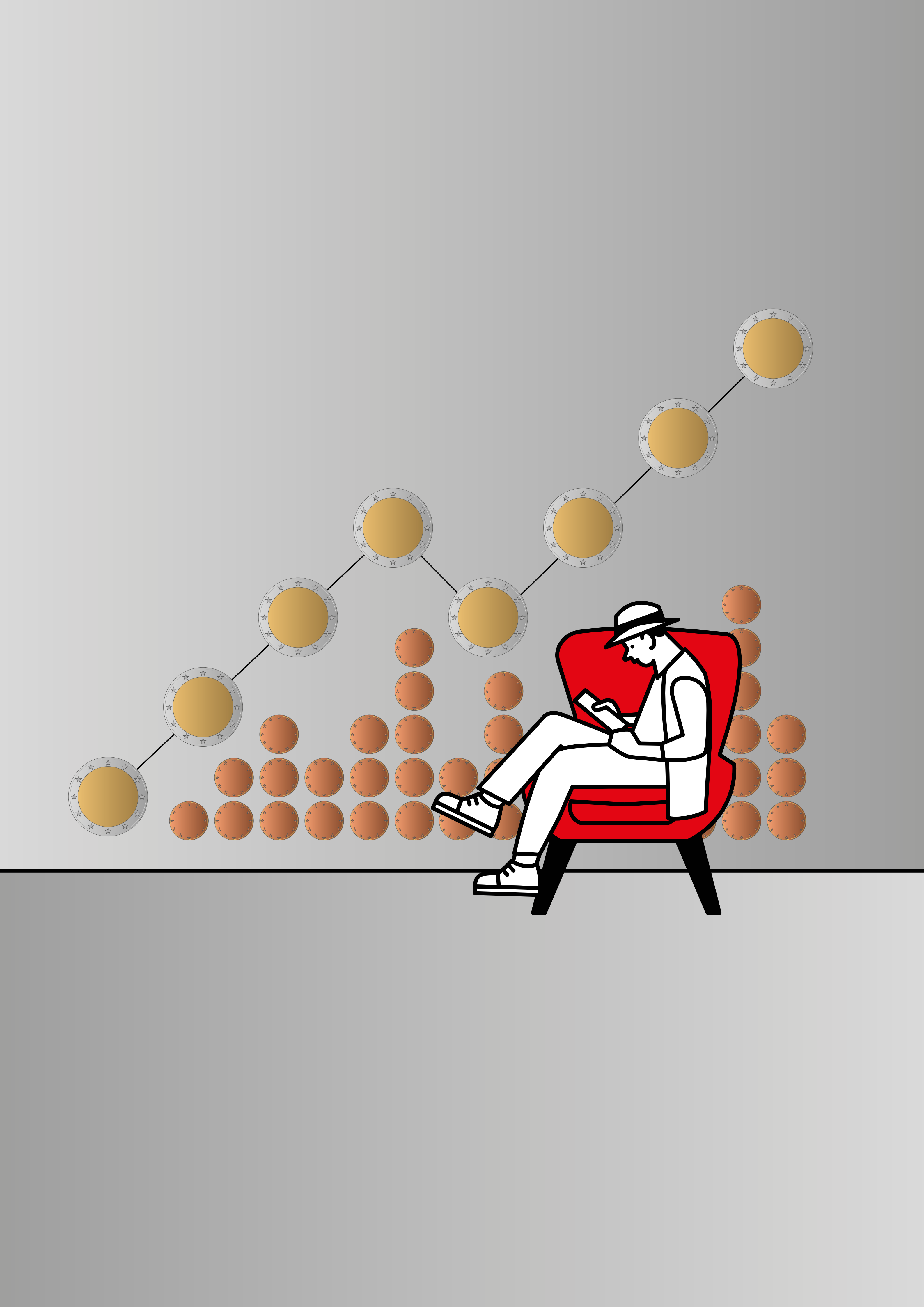
Vision

A Croatian-owned bank with relevant market influence that cares best for clients, shareholders and the community.

Mission

We create conditions for a better life in Croatia.





Key financial indicators

Group (EUR '000)	2023	2022	2021	2020	2019
Basic Indicators					
Profit for the Year	83	127	27	24	19
Operating Profit	99	28	41	39	46
Total Assets	7,046	5,540	3,694	3,380	3,155
Loans to Customers	2,910	3,062	1,892	1,954	1,770
Received Deposits	5,923	4,641	3,111	2,815	2,663
Share Capital and Reserves	534	457	353	329	315
Other Indicators					
Return on Equity	51.30%	78.56%	16.68%	15.10%	12.09%
Return on Assets	1.18%	2.29%	0.73%	0.72%	0.62%
Operating expenses[1] to Operating Income Ratio	53.15%	79.18%	62.36%	64.10%	61.36%

Bank (EUR '000)	2023	2022	2021	2020	2019
Basic Indicators					
Profit for the Year	81	18	27	24	19
Operating Profit	94	24	41	38	43
Total Assets	7,046	4,563	3,694	3,380	3,155
Loans to Customers	2,910	2,107	1,892	1,954	1,770
Received Deposits	5,924	3,924	3,112	2,816	2,664
Share Capital and Reserves	534	347	352	328	315
Other Indicators					
Return on Equity	49.77%	10.92%	16.64%	14.99%	11.84%
Return on Assets	1.14%	0.39%	0.73%	0.71%	0.60%
Operating expenses[1] to Operating Income Ratio	50.56%	76.01%	62.03%	63.78%	61.27%
Regulatory Capital	505	345	349	307	293
Capital Adequacy	22.51%	23.57%	25.65%	21.82%	20.17%

[1] General and Administrative Expenses, Depreciation and Amortization and Other Cost

Statement by the President of the Management Board

Dear and esteemed shareholders,

It is with great pleasure that I present the 2023 performance outcomes of Hrvatska poštanska banka p.l.c., a year that not only underscores our consistent success but also emerges as the most distinguished period in our entire corporate history.

HPB recorded unparalleled growth in assets in 2023, securing a position among the five largest banks on the domestic market holding nearly a 9% market share. This achievement significantly aligns with our mid-term strategic objectives and the overarching vision we have established. Beyond asset growth and an expanded market share, 2023 was marked by exceptional profitability, the completion of the legal merger with Nova hrvatska banka and a surge in market capitalization outperforming all major indexes. This performance earned us the ZSE award for the stock with the most notable price growth. Following investor interest, HPB's share, known for its high liquidity and substantial daily trading volumes on the Zagreb Stock Exchange, was incorporated into the CROBEX stock indexes in September 2023. Additionally, in a decision at the year's end, a dividend of EUR 2.61 per share was proposed and ratified by our shareholders, marking a pivotal moment since 2016.

Recognition extended beyond our investor base, as our advancements in governance and market positioning were honoured with a transparency award from PWC and a distinction in environmental management from HRIO.

Review of HPB's Financial Performance and Position

HPB p.l.c. witnessed a nearly fivefold increase in net profit in 2023, reaching EUR 80.6 million, the highest in its corporate history. This profitability milestone resulted in an 18.31 percent return on equity, positioning HPB as the second-leading among Croatia's large banking institutions. Building on this momentum of increased profitability and the successful merger of Nova hrvatska banka, the Bank's capital and reserves experienced a 53.8 percent uplift, and the book value of HPB d.d.'s shares rose by EUR 92, culminating in a value of EUR 264 by year-end. Our cautious capital enhancement, alongside managed risk exposure, is reflected in a steady capital adequacy ratio of 22.5%.

Profit growth was significantly driven by a 106 percent increase in net interest income, primarily due to a rise in the ECB's reference interest rates, which positively impacted HPB's earnings from its liquid assets held at central and commercial banks. This boost was further amplified by the merger with Nova hrvatska banka, which became a part of HPB's operational units as of July 3, 2023. There was also a notable improvement in fee income, achieving a 6.5% increase, and the favourable dynamics in capital markets contributed to the operational results through dividends received, gains from valuation, and trading of financial instruments, totalling EUR 6.8 million. These factors combined to boost our total net operating income by 93% in 2023.

Given the complexities of numerous strategic efforts and the merger, necessitating an increase in our workforce and operational units, an increase in operational expenses were an anticipated outcome amid escalating prices and inflationary pressures. Yet, our administrative and general expenses saw a modest rise of 28.3%, markedly trailing behind our revenue growth. This development improved our cost-to-income ratio to 51%, edging closer to the banking sector average in Croatia of 41%. This sector average is primarily influenced by the operations of the four largest banks, which have achieved economies of scale.

The movement in the loan portfolio affected the impairment and provisions, which in 2023 had a neutral effect on the profit and loss account, against a EUR 2.6 million expense in 2022.

HPB has consistently outgrown the market since the beginning of 2019, a trend strongly reaffirmed in 2023 with an asset increase of 54.4 percent. This surge propelled HPB into the top five banks by market share in Croatia. Aside from the merger of

Nova hrvatska banka, this remarkable expansion is due to a proactive strategy and the introduction of the most appealing savings product in the market, HPB – SUPER ŠTEDNJA. This initiative significantly boosted the Bank's acquisition efforts, resulting in over 33 thousand agreements and EUR 1.1 billion in the volume of newly agreed deposits, of which about EUR 700 million represented new fund inflows. The surge in HPB – SUPER ŠTEDNJA, alongside merger benefits, propelled a 51% boost in deposit and demand deposit account balances, with a 38% expansion in our loan portfolio. It fills me with pride to see our balance sheet's quality continuously enhancing, a testament to our robust risk management framework. This is particularly underscored by our non-performing exposure ratio dropping below 5% for the very first time.

Hrvatska poštanska banka is advancing towards its objectives, fortified as one of Croatia's top five banks, aligning with our mission to create conditions for a better life in Croatia.

The Bank maintains a strong liquidity profile, boasting EUR 3.1 billion in cash and equivalents, plus EUR 900 million in marketable securities, exemplified by an impressive Liquidity Coverage Ratio of 254.5% and a Net Stable Funding Ratio of 223%.

Review of HPB Group's Financial Performance and Position

The 2023 financial performance of the HPB Group was significantly shaped not only by Hrvatska poštanska banka p.l.c. as a mother company, but also by key subsidiaries including HPB Invest Ltd. (an investment fund management company), HPB-nekretnine Ltd. (a company specialized in real estate transactions), Nova hrvatska banka p.l.c. (a credit institution, until July 2, 2023), and Pronam Nekretnine Ltd. (until March 15, 2023).

Despite the subsidiaries being classified as non-material, their combined efforts contributed to the Group's consolidated balance sheet, closely aligning with the parent company's and reaching EUR 7.05 billion by year-end, illustrating the cohesive strength and integrated growth within the Group. This reflects a significant 27% increase or EUR 1.5 billion in growth, driven primarily by the strategic introduction of the HPB SUPER ŠTEDNJA product, which significantly boosted new deposit acquisitions in 2023, showcasing the bank's ability to achieve organic expansion.

The 2023 consolidated net profit stands at EUR 83 million, a decrease from the EUR 127 million recorded in the previous year. However, it's crucial to emphasize that the profit for 2023 was generated through the bank's core operations, in contrast to 2022, which saw a significant one-time gain from a favourable acquisition ("badwill") of EUR 135.2 million. This distinction highlights the strength and sustainability of the bank's operational performance in 2023.

2024 Strategic Outlook for Hrvatska poštanska banka

Securing a position among the top 5 banks in the domestic market, HPB successfully concluded a pivotal chapter of its strategic development in 2023. Looking ahead, we anticipate embarking on a new phase characterized by sustained market share expansion, significant market influence, achieving economies of scale, and thereby, enhancing value for our shareholders. Finalizing the operational integration with the client and portfolio base of the former Nova hrvatska banka will unlock additional resources. This shift will accelerate our digital transformation and refine our internal operations and product suite, significantly improving the service experience for HPB customers.

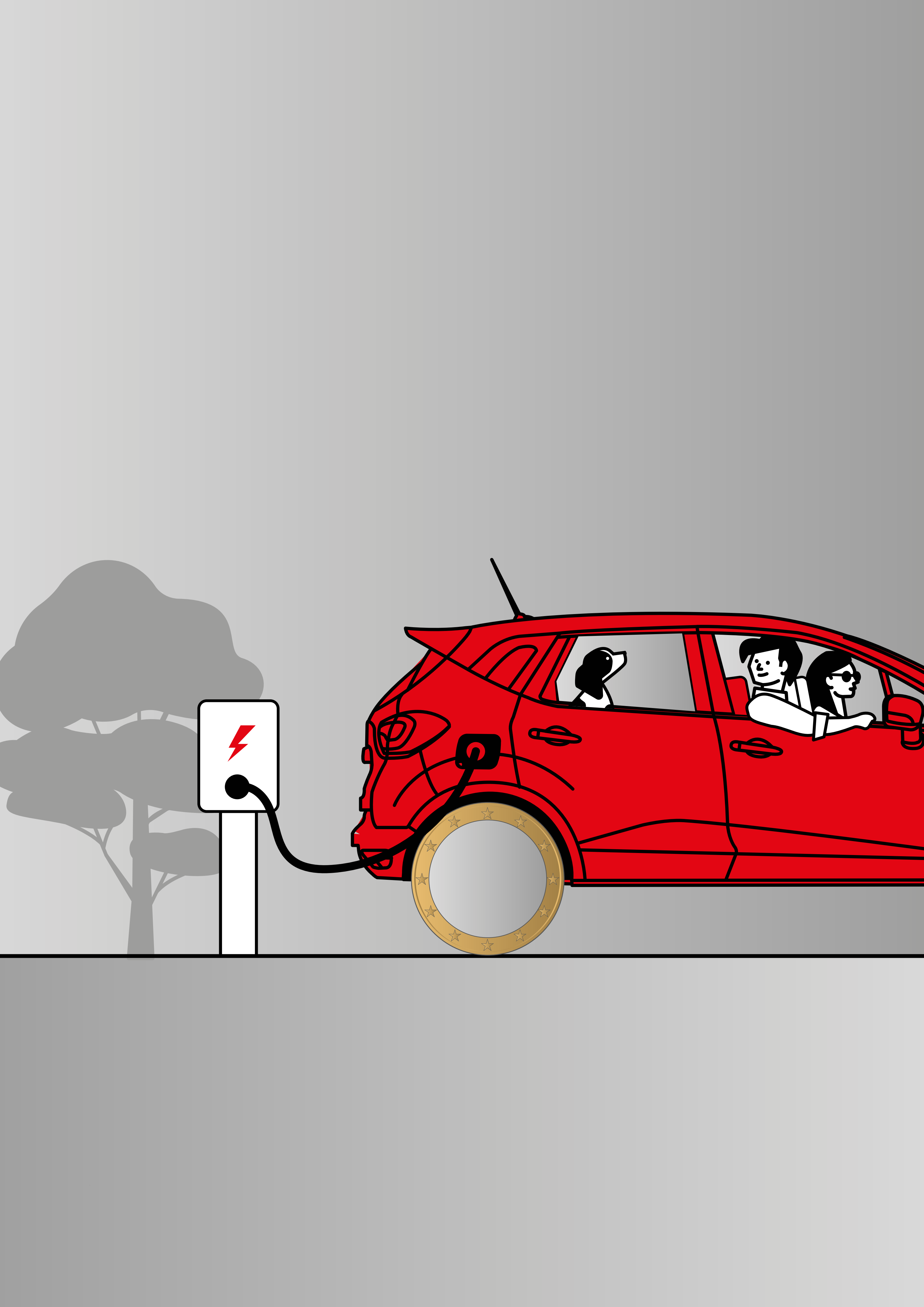
In closing, on behalf of Hrvatska poštanska banka Management Board, I extend my gratitude to our shareholders and Supervisory Board members for their collaboration and support, our valued clients for their trust in HPB amidst a highly competitive banking landscape, and to our dedicated HPB team for their professionalism and significant contributions to the remarkable achievements of 2023. I hold firm belief in our team's ability to lay the groundwork for a future filled with ongoing success in our business ventures.

Marko Badurina
President of the Management Board

Management Board of Hrvatska poštanska banka p.l.c.

Management Board	**Marko Badurina** *President of the Management Board*	**Anto Mihaljević** *Member of the Management Board*	**Ivan Soldo** *Member of the Management Board*	**Tadija Vrdoljak** *Member of the Management Board*	**Josip Majher** *Member of the Management Board*
Area of responsibility	• Large Companies and Public Sector • Financial Markets • Compliance Division • Internal Audit • Management Board Office • HR • Legal affairs • Strategic development • Sustainability Office • Digitization of Business	• Retail • Direct Channels Banking • SME • Marketing • Quality Service Management • Service Development and Sales Personnel Office	• Credit Risk Management of natural person • Credit Risk Management of legal entities • Strategic Risk and Risk Control • Collection Management	• Financial management • ALM • Procurement and General Affairs • Corporate Security	• Business Support • IT • Products and Delivery Processes Management Division • Organization and Project Management
Experience	• 2019 – HPB d.d., President of the Management Board • 2017 – Sberbank d.d., Advisor to the Business Strategy Board for Financial Markets, Investment Banking, Financial Institutions • 2013 – Sberbank d.d., Deputy Director of the Financial Markets Division • 2012 – Volksbank d.d., Deputy Director of the Financial Markets Division • 2007 – Volksbank d.d., Liquidity and Trading Management	• 2019 – HPB d.d., Member of the Management Board • 2019 – Kentbank d.d., Director for Retail • 2017 – Allianz Zagreb d.d., Director of Sales Support • 2015 – Zagrebačka banka d.d., Sales Management Director for Individual Banking Clients • 2010 – Zagrebačka banka d.d., Director of the Region Zagreb • 2005 – Zagrebačka banka d.d., Director of the Region Sjeverozapadna Hrvatska • 2003 – Zagrebačka banka d.d., Leasing Sales Manager • 2001 – Zagrebačka banka d.d., Head of Sales Controlling • 1999 – Fer count d.o.o., Trainee Auditor	• 2019 – HPB d.d., Member of the Management Board • 2018 – Raiffeisen Bank International AG, Executive Director, Risk Management of Financial Institutions and States • 2015 – Raiffeisen Bank International AG, Director, Risk Management of Financial Institutions and States • 2013 – Raiffeisen Bank International AG, Risk Manager, Senior Risk Manager • 2011 – Raiffeisen Bank International AG, Analyst, Senior Analyst banks and Financial Institutions • 2010 – Ipreo Ltd., Analyst Global Markets • 2005 – FIMA Fas d.o.o., Assistant Director • 2005 – KPMG Croatia d.o.o., Junior Associate	• 2023 – HPB d.d., Member of the Management Board • 2023 – HPB d.d., Director of Digitalization of Business • 2022 – Nova hrvatska banka PLC, President of the Management Board • 2018 – Croatia banka PLC, Member of the Management Board • 2017 – Agromeđimurje PLC, President of the Management Board • 2016 – Agrokor PLC Retail, Director of Projects • 2012 – Konzum PLC, Director • 2009 – Hypo Alpe Adria Bank PLC, Member of the Management Board • 2007 – Slavonska banka PLC, Hypo Alpe Adria Bank PLC, Advisor to the Management Board, Procurator	• 2023 – HPB d.d., Member of the Management Board • 2021 – Ministry of Labour, Pension System, Family and Social Policy, Cabinet of the Minister, Special Advisor • 2020 – V20 Turizam Ltd. – Hotel Blue Zagreb, Director / Partner • 2016 – Croatia Insurance Company PLC, Director, Insurance of Corporate clients and SME • 2012 – Croatia Insurance Company PLC, Director, Corporate client Management Service • 2011 – Croatia Insurance Company PLC, Head of Department for Developement of External Sales Network • 2009 – Croatia Insurance Company PLC, Senior specialist for improving sales channels with financial institutions

Note: organizational jurisdiction as of December 31, 2023



Macroeconomic review

Gross domestic product

Decomposition of gross domestic product (GDP) growth by components

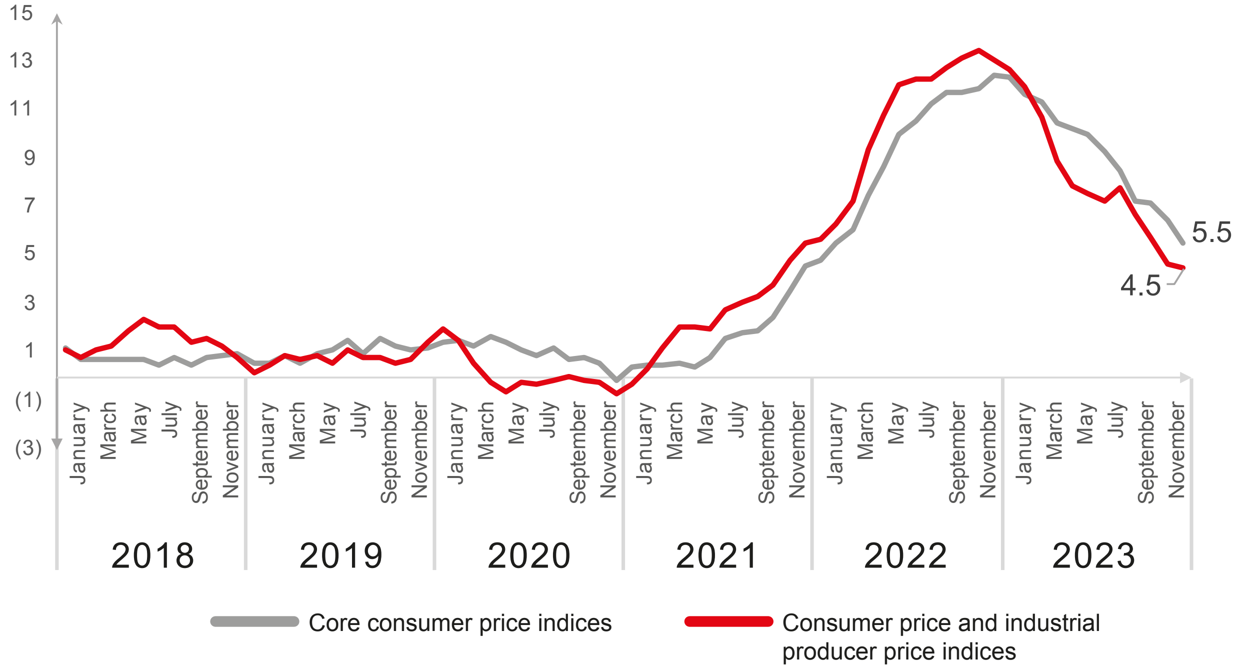
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
GDP – real growth rate	**(2.3%)**	**(0.4%)**	**(0.4%)**	**2.5%**	**3.6%**	**3.4%**	**2.8%**	**3.4%**	**(8.6%)**	**13.8%**	**6.3%**	**2.8%**
GDP – nominal growth rate	**(1.0%)**	**0.3%**	**(0.3%)**	**2.6%**	**3.5%**	**4.6%**	**4.9%**	**5.5%**	**(7.9%)**	**15.5%**	**16.4%**	**11.6%**
GDP deflator	**1.4%**	**0.7%**	**0.1%**	**0.1%**	**(0.1%)**	**1.2%**	**2.1%**	**2.1%**	**0.7%**	**1.7%**	**10.1%**	**8.8%**
Contribution to real GDP growth												
- household consumption	(1.5%)	(1.0%)	(1.5%)	0.2%	1.8%	1.8%	1.9%	2.4%	(3.0%)	6.4%	3.9%	1.8%
- government expenditure	(0.3%)	0.1%	0.3%	(0.1%)	0.2%	0.5%	0.5%	0.6%	0.7%	0.7%	0.6%	0.6%
- gross fixed capital investment	(0.8%)	0.2%	(0.4%)	1.5%	1.0%	0.3%	0.8%	1.7%	(1.0%)	1.4%	0.0%	0.8%
- net exports	0.4%	(0.3%)	1.5%	0.4%	0.3%	(0.7%)	(1.9%)	(0.1%)	(5.3%)	5.2%	(0.4%)	1.5%
- change in inventory and other	0.0%	0.6%	(0.3%)	0.5%	0.3%	1.5%	1.5%	(1.2%)	0.0%	0.0%	2.2%	(1.9%)
Y-o-Y rate of change in real GDP												
- household consumption	(2.4%)	(1.6%)	(2.5%)	0.4%	3.2%	3.2%	3.4%	4.1%	(5.2%)	10.6%	6.7%	3.0%
- government expenditure	(1.5%)	0.6%	1.3%	(0.4%)	1.1%	2.1%	2.2%	2.8%	3.5%	3.0%	2.7%	2.8%
- gross fixed capital investment	(4.5%)	1.0%	(2.3%)	8.2%	5.0%	1.6%	3.9%	9.0%	(5.0%)	6.6%	0.1%	4.2%
- goods and services exports	(1.5%)	2.6%	7.3%	10.2%	7.0%	6.9%	3.6%	6.8%	(23.2%)	32.7%	27.0%	(2.9%)
- goods and services imports	(2.4%)	3.3%	3.4%	9.3%	6.5%	8.5%	7.4%	6.7%	(12.3%)	17.3%	26.5%	(5.3%)

Source: CSB (cro. DZS), *www.dzs.hr* (MSI Gross domestic product, form 12.1.1.4.), Processing: HPB

Although there was no geopolitical stabilization in 2023, the domestic economy showed significant resilience and the growth of the gross domestic product can be evaluated as extremely positive. The effects of the introduction of the single euro currency, the accession to the Schengen area, as well as the security of Croatia as a tourist destination, helped the tourist season, which, according to its economic effects, returned to pre-pandemic levels in terms of the number of arrivals, while the influx of foreign tourists was 37% higher than in 2019. The overall economic activity continued to increase due to the increase in household consumption because of the increase in income and the weakening of inflation. On the other hand, industrial production recorded a slowdown, mainly due to a strong decline in energy production and production of capital goods. The construction sector component still contributes relatively strongly to overall economic activity due to the demand for real estate, despite the increase in interest rates on housing loans, although there are indicators that it could slow down both on the side of foreign and domestic buyers. Overall, the economy of the Republic of Croatia achieved a real GDP growth rate of 2.8%, which ranks it in second place in terms of growth among countries in the Eurozone in 2023.

Prices

Consumer price index (year-on-year rate of change in%)



Source: CNB, Consumer Price and Producer Price Indices of Industries (Form h-j1) and Basic Consumer Price Index (Form h-j2); Processing: HPB

Year-on-year price change rate of selected components of the consumer price index

	2018	2019	2020	2021	2022	2023
Consumer price index – total	**1.5%**	**0.8%**	**0.1%**	**2.6%**	**10.7%**	**8.0%**
Food and non-alcoholic beverages	+1.0%	(0.1%)	+1.9%	+1.6%	15.8%	12.9%
Alcoholic beverages and tobacco	+2.8%	+4.4%	+3.6%	+5.9%	3.7%	5.6%
Clothing and footwear	(1.3%)	(0.9%)	(0.6%)	(0.1%)	7.0%	8.5%
Housing, water, electricity, gas and other fuels	+2.7%	+3.1%	(1.0%)	+1.6%	10.0%	7.1%
Furnishings, household equipment and routine household maintenance	+0.4%	+0.8%	+0.3%	+1.0%	12.4%	9.5%
Health	+1.4%	(0.9%)	+1.2%	+0.8%	2.0%	6.4%
Transport	+3.5%	(0.3%)	(4.3%)	+8.3%	14.2%	1.2%
Communication	(0.2%)	(0.2%)	+1.5%	+1.1%	0.3%	2.6%
Recreation and culture	+0.9%	+0.7%	+0.1%	+1.7%	7.2%	7.3%
Education	+0.4%	+0.8%	(0.4%)	+0.5%	1.1%	3.6%
Restaurants and hotels	+3.0%	+3.0%	+1.5%	+2.9%	13.3%	15.0%
Miscellaneous goods and services	+0.7%	+0.3%	+2.0%	+0.9%	7.4%	9.0%

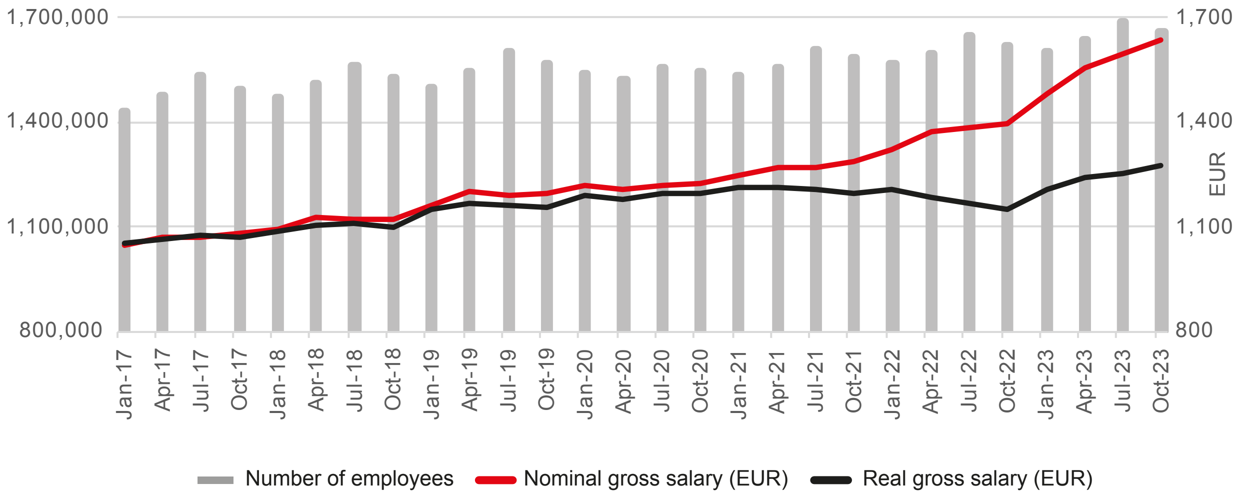
Source: CSB (cro. DZS), *www.dzs.hr* (Form 1.2 Consumer price indices according to the ECOICOP classification), Processing: HPB

In 2023, the disinflationary trend that started at the end of the previous year continued. Nevertheless, such a significant deviation of inflation levels from the target level of the ECB resulted in the largest increase in reference interest rates in the history of the Eurozone (e.g. the Deposit Facility Rate increased by 4.5 p.p.). The stabilization of energy prices, including their lower level compared to last year, had a deflationary effect, which resulted in a difference between the overall index of inflation and the basic index of consumer prices without energy. The rates of change in personal income were not aligned with the rates of price increase, which reflected on purchasing power and affected consumer preferences, especially at the beginning of the business year. If the pressures to adjust income to the increased cost of living will continue, there is a possibility that it will take longer to reach the target level of inflation.

The components of the consumer basket show the full scale of inflationary pressures, which are visible in all categories. Due to its share in the total consumer basket, the increase in the cost of food significantly reduced the available personal income, especially when growth rates are viewed over a two-year period. Another important component of the total costs, which is energy, thanks to the package of aid measures provided by the Government of the Republic of Croatia for citizens and entrepreneurs, was slightly lower compared to the previous year, which is why it had a mitigating effect on the overall increase in prices. It is to be expected that a longer period will be needed to nullify the negative effects on citizens' purchasing power. The transfer of business costs that entities in category Restaurants and hotels incorporate into their products and services was highlighted as the item with the largest year-on-year increase, however, although it is a significant economic branch, the mentioned item does not take a significant part in the consumer basket.

Employment and wages

Comparative movement of the number and gross income of employees



Source: CNB, *www.hnb.hr* (Bulletin, seasonally adjusted and additional time series), processed by HPB

The continuous increase in the number of employees has been present on the labor market since 2014. With the end of the COVID-19 pandemic and the subsequent economic recovery, the labor market is now dominantly characterized by a labor shortage. Since the demand is most pronounced for unqualified labor, which is needed for the regular functioning of the construction and catering sector, where there is a large deficit of domestic labor, either due to an imbalance on the side of secondary education, or due to emigration, the demand must be met by workers from abroad. In 2023, the average number of employees (1.65 million) compared to the previous year increased by 39 thousand employees, and by 77 thousand employees compared to 2021. At the same time, the insufficient supply of labor accompanied by depopulation and aging of the population, as well as demands for salary increases due to the rising cost of living, contribute to the increase in the overall price level.

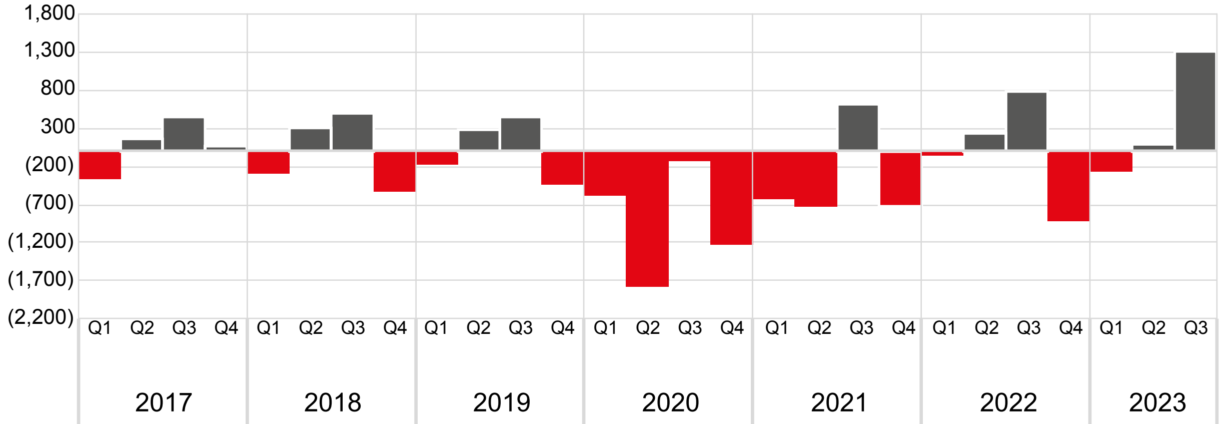
Graphic representation the comparative movement of nominal and real gross earnings of employees clearly shows the consequent effects of the accelerated inflation rate from 2021 to 2023, so the divergence of the curve of nominal and real gross wages is clearly visible. The difference between nominal and real gross income at the end of 2023 is 27.9%.

Public finance

The recovery of economic activity accompanied by an increase in prices and total consumption had a positive effect on the difference between income and expenditure of the central government. In the first three quarters of 2023, the current expenditures of the central government were strongly aimed at cancelling the negative effects of the increase in energy costs, as well as maintaining the purchasing power of the population due to the decrease in real income. Thus, the expenditures of social benefits and subsidies in the first three quarters of 2023 were EUR 1,519 million higher than in the same period of 2022. Nevertheless, in the same period, a positive difference of income over expenses was realized in the amount of EUR 1,136 million. For the sake of comparison, the total surplus in 2022, recorded also in inflationary environment, amounted to EUR 89 million.

With the end of the long period of low interest rates, there was an increase in interest costs in total expenditures. The interest burden on budget expenditures in the first nine months of 2023 amounted to 3.47%, while in 2022 it amounted to 3.04%, which is still a relatively low level compared to much more indebted eurozone countries. Overall, the consolidated balance of the general government is, except for the crisis in 2020, mostly balanced, which is also reflected in the increase in Croatia's credit rating, which today is investment grade (BBB according to the S&P agency).

The difference between total revenues and total expenditures of the consolidated general government (in millions of EUR)



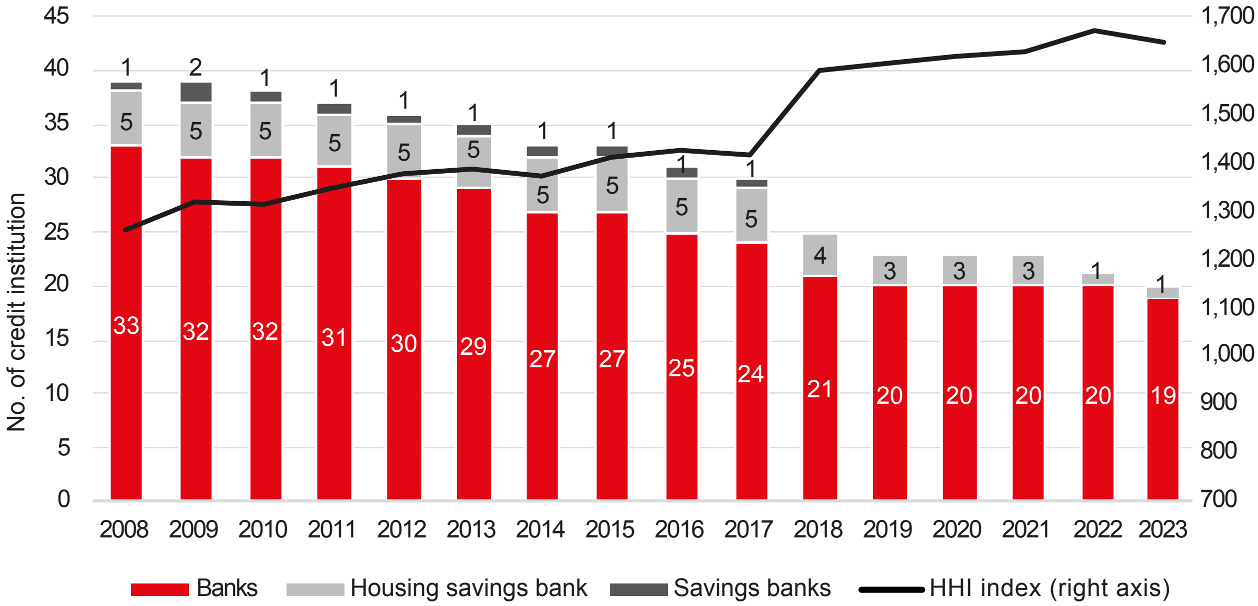
Source: CNB, *www.hnb.hr* (Non-financial accounts of general government, Form h-i_1), Processing: HPB

Business environment

The number of credit institutions on the Croatian market is continuously decreasing due to the consolidation of the market and the cessation of operations of smaller banks. Hrvatska poštanska banka also contributed to this trend with the merger of Nova hrvatska banka in 2023 (after the merger of Jadranska banka and HPB Stambena štedionica in 2019), so as of December 31, 2023, 19 commercial banks and 1 housing savings bank were operating on the market.

The concentration of the sector, measured by the market share of the largest 5 banks, increased from an already high 74% in 2017 to over 80% at the end of 2019, which further increased to 82.58% at the end of the business year 2023. On the other hand, the Herfindahl-Hirschman asset concentration index of credit institutions fell slightly to 1,648 points in 2023 after several years of continuous mild growth, which indicates an increase in competition - due to the decline in assets of Erste&Steiermärkische and the growth of HPB and some smaller banks.

The number of credit institutions and the Herfindahl-Hirschman index (HHI) of concentration for bank assets



Source: CNB, *www.hnb.hr* (Revised performance indicators of credit institutions from 2008 to 2022, Selected indicators of the structure, concentration, and performance of credit institutions as at 31.12.2023), Processing: HPB

A characteristic of the market in the region of Central and Eastern Europe is that foreign-owned banks have a dominant share, and Croatia is no exception. For many years, foreign-owned banks, and housing savings banks account for around 90% of the total assets of the credit institutions sector, and banks from the European Union, owned by Italy, Austria and Hungary, dominate among them.

HPB is one of the two remaining state-owned banks, and as of December 31, 2023, it took fifth place among credit institutions in the Republic of Croatia in terms of assets, with a market share of 8.97 percent. The remaining state owned bank - Croatia banka d.d. makes up 0.30% of the system's assets, whereby state owned domestic banks make up 9.27% of the share.

The total assets of the sector increased by EUR 2.62 billion in 2023 compared to 2022, which is an increase of 3.46%. This continued the trend of financial sector asset growth, but at significantly slower rates than in the past few years, partly due to the transfer of funds that were deposited at the end of 2022 for conversion back into cash, and partly due to the appearance of public issues of government securities, which is why until the outflow of funds from the banking sector to the account of the state budget in the CNB.

Accordingly, within the asset structure, liquid instruments (mostly deposits with the CNB) and loans and advances grew the most due to growth, with a slight increase in asset quality (the share of non-performing loans (NPL) at the end of 2023 was 2.62%, and at the end of 2022 it was 3.01%). Non-performing loans decreased in the household loan portfolio, so the share of NPLs decreased from 5% to 4.23%. The share of NPLs in the sector of non-financial companies decreased from 6.42% to 5.07%, primarily due to the economic recovery and the sale of non-performing loans.

According to provisional unaudited data, credit institutions operated with a net profit of EUR 1.36 billion in 2023, which is the highest level of net profit in history. The main driver of this business result is primarily the increase in income on deposits with the central bank and the slower growth of interest on deposits, which occurred to a significant extent only after Hrvatska poštanska banka started the trend with the introduction of the HPB Super savings product. As a result, the profitability indicators are significantly above historical averages, as well as the cost efficiency indicator. The characteristic of the sector is still a high level of capitalization, and liquidity indicators remain at high levels due to the continuous increase of the sector's assets.

Key performance indicators of credit institutions (in %)

	2017	2018	2019	2020	2021	2022	2023
Return on Assets (ROA)	0.85	1.21	1.37	0.61	1.17	1.00	1.76
Return on Equity (ROE)	5.91	8.40	9.82	4.40	8.75	8.18	15.47
Cost-income-ratio (CIR)	48.98	48.05	46.32	54.99	48.72	52.51	41.02
NPL share (NPL)	8.73	7.49	5.47	5.42	4.33	3.01	2.62
NPL coverage	61.64	60.41	68.01	64.05	63.16	66.98	69.03
Capital adequacy ratio	23.80	23.14	24.80	24.92	25.85	24.57	23.61
Liquidity coverage ratio (LCR)	190.83	164.38	173.71	181.94	202.48	242.38	238.08

Source: CNB, *www.hnb.hr* (Audited performance indicators of credit institutions from 2017 to 2022, unaudited indicators of the structure, concentration and performance of credit institutions on 31.12.2023), Processing: HPB

Credit institutions - overview of trends in selected indicators in 2023 (ranking list and comparison of top-10 banks according to market share and selected categories)

Asset growth

No.	Institution name	Y-T-D (%)
1	**Hrvatska poštanska Bank d.d.**	**54.41**
2	KentBank d.d.	34.56
3	Podravska Bank d.d.	12.13
4	Istarska kreditna Bank Umag d.d.	6.31
5	OTP Bank d.d.	5.05
6	Raiffeisenbank Austria d.d.	3.86
7	Zagrebačka Bank d.d.	2.03
8	Privredna Bank Zagreb d.d.	2.03
9	Erste&Steiermärkische Bank d.d.	(2.62)
10	Addiko Bank d.d.	(3.55)

Return on equity

No.	Institution name	ROE (%)
1	Zagrebačka Bank d.d.	19.11
2	Istarska kreditna Bank Umag d.d.	18.94
3	**Hrvatska poštanska Bank d.d.**	**18.31**
4	Erste&Steiermärkische Bank d.d.	17.04
5	Raiffeisenbank Austria d.d.	14.43
6	Privredna Bank Zagreb d.d.	14.38
7	OTP Bank d.d.	14.11
8	KentBank d.d.	10.87
9	Podravska Bank d.d.	6.30
10	Addiko Bank d.d.	2.47

Capital adequacy

No.	Institution name	Total capital ratio (%)
1	Addiko Bank d.d.	32.09
2	Privredna Bank Zagreb d.d.	28.24
3	Zagrebačka Bank d.d.	25.77
4	**Hrvatska poštanska Bank d.d.**	**22.58**
5	Erste&Steiermärkische Bank d.d.	21.30
6	Podravska Bank d.d.	20.53
7	Raiffeisenbank Austria d.d.	19.93
8	OTP Bank d.d.	19.52
9	KentBank d.d.	18.56
10	Istarska kreditna Bank Umag d.d.	16.64

Market share

No.	Institution name	Share in total assets (%)
1	Zagrebačka Bank d.d.	25.93
2	Privredna Bank Zagreb d.d.	20.57
3	Erste&Steiermärkische Bank d.d.	16.88
4	OTP Bank d.d.	10.23
5	**Hrvatska poštanska Bank d.d.**	**8.97**
6	Raiffeisenbank Austria d.d.	8.40
7	Addiko Bank d.d.	2.81
8	Istarska kreditna Bank d.d.	0.95
9	KentBank d.d.	0.93
10	Podravska Bank d.d.	0.87

Profitability

No.	Institution name	Profit for the year (000 EUR)
1	Zagrebačka Bank d.d.	450,361
2	Privredna Bank Zagreb d.d.	314,119
3	Erste&Steiermärkische Bank d.d.	219,215
4	OTP Bank d.d.	134,839
5	Raiffeisenbank Austria d.d.	95,898
6	**Hrvatska poštanska Bank d.d.**	**80,615**
7	Istarska kreditna Bank d.d.	11,318
8	Addiko Bank d.d.	9,154
9	KentBank d.d.	6,604
10	Podravska Bank d.d.	4,051

Return on assets

No.	Institution name	ROA (%)
1	Zagrebačka Bank d.d.	2.23
2	Privredna Bank Zagreb d.d.	1.96
3	OTP Bank d.d.	1.91
4	Erste&Steiermärkische Bank d.d.	1.85
5	Istarska kreditna Bank Umag d.d.	1.72
6	Raiffeisenbank Austria d.d.	1.63
7	**Hrvatska poštanska Bank d.d.**	**1.56**
8	KentBank d.d.	1.48
9	Podravska Bank d.d.	1.47
10	Addiko Bank d.d.	1.40

Source: CNB, *www.hnb.hr* Selected indicators of the structure, concentration and performance of credit institutions on 31.12.2023), Processing: HPB


HPB

Statement of the Management Board on the Condition of Hrvatska poštanska banka, p.l.c.

History and Key Events in the Development of Hrvatska poštanska banka p.l.c.

Establishment and beginnings of HPB

The Bank was established in October 1991, with its registered office in Zagreb. Its inaugural business address was at Tkalčićeva Street 7. Fifty founders/shareholders subscribed to and acquired the Bank's shares, among whom the business partners of Croatian Post and Telecommunication 'HPT' were prominent. HPT, being the largest shareholder, provided the initial premises and personnel for the Bank's operations. Registered as a universal banking organization, the Bank was authorized to conduct 'all cash, deposit, credit, and guarantee operations with legal entities and all banking operations with natural persons, including the provision of payment services.

In response to the retail and corporate demand for banking services, particularly in local areas without banks, the Bank leveraged the extensive network of HPT offices to introduce banking services. This included the acceptance of retail and corporate deposits, particularly from HPT business partners. Starting in May 1992, the Bank began offering international foreign exchange payment services and accepting the first foreign exchange deposits. Throughout that year, the benefits of the newly established financial institution were recognized not only by its founders and HPT's business partners but also by smaller private businesses, which began depositing their funds with the Bank. Pursuant to the Regulation on Recovery of Debts and Funds Placed With Poštanska štedionica Beograd – Croatian Subsidiary, Zagreb (dated March 25, 1992, Official Gazette 15/92), the Bank was designated as the legal successor of the aforementioned subsidiary. This significantly enhanced its potential and activities, encompassing the exchange of passbooks and current accounts, assimilation of savers and depositors, and recovery of claims.

Initially, the Bank primarily engaged in retail banking, accepting HRD (dinar) and HRK deposits from individuals, managing payroll and pension payments, investing surplus funds in money markets, and providing short-term loans to legal entities. Despite the challenging operating conditions, the Bank consistently achieved growth in its balance sheet and profitability.

In 1995, the Bank acquired a building at Jurišićeva Street 4, which has served as its headquarters ever since and remains unchanged to this day.

Business expansion

The Bank's first branch opened in Split in April 2003, marking the start of a significant expansion of its business network. This network has since grown to encompass 56 business units as of today.

In July 2005, the Bank founded HPB-nekretnine, a real estate limited liability company, and HPB Invest, a limited liability company for investment fund management, thereby establishing the Hrvatska poštanska banka Group.

The Group's development continued in 2006 with the establishment of HPB Stambena Štedionica, a public limited company specializing in housing savings. This entity was successfully merged with the parent company on December 2, 2019, as part of a business rationalization and optimization effort.

Diversification of the ownership structure and capital strengthening

Through public share offering in September 2015, the Bank successfully raised its equity by HRK 550 million, leveraging both private and public equity investments. The diversified shareholding structure now includes pension funds, investment funds, and other private investors, who contributed HRK 305.9 million to acquire a

25.5% ownership stake The Republic of Croatia invested HRK 244.1 million, reducing its and its related persons' ownership from 99% to 74.5%. In 2021, this stake rose to 77.3% following the transfer of shares resulting from the dissolution of the Prosperus Economic Cooperation Fund, a Bank shareholder. The shares were distributed to the fund's participants: the Croatian Bank for Reconstruction and Development, which passed its shares to the Republic of Croatia, and the Fund for Financing the Decommissioning and Disposal of Radioactive Waste and Spent Nuclear Fuel from the Krško Nuclear Power Plant, wholly owned by the Republic of Croatia.

Acquisition and merger of Jadranska banka p.l.c. Šibenik

In a historic move for the bank in 2018, it capitalized on an opportunity for inorganic growth by acquiring a 100% ownership stake in Jadranska Banka p.l.c. Šibenik (JABA) on July 14, 2018. JABA was previously undergoing a resolution process. The acquisition was swiftly followed by the initiation of a merger process with the bank, culminating successfully on April 1, 2019. Subsequently, JABA was integrated as a regional centre within the bank, yielding positive synergistic and financial impacts on the bank's capital.

ECB comprehensive assessment

In late 2019, HPB, along with four other domestic banks, was subjected to a comprehensive assessment by the European Central Bank (ECB). By May 2020, the ECB had validated the quality of HPB’s assets and the robustness and resilience of its balance sheet. This confirmation served as a key precondition for beginning the process of Croatia's accession to the European Monetary Union (EMU).

Acquisition of Sberbank p.l.c., stabilizing operations, rebranding as the Nova hrvatska banka p.l.c., and merger into HPB

Following the onset of Russian aggression against Ukraine, Sberbank's Croatian branch faced a sudden liquidity crisis due to an uncontrolled withdrawal of client funds, prompting the bank to enter resolution on March 1, 2022.

HPB performed exceptionally well after 2019 and significantly strengthened its capital position, preparing it for future acquisitions. When the Single Resolution Board and the CNB sought interested buyers for Sberbank p.l.c., HPB swiftly and efficiently acquired a 100% ownership stake for HRK 71,000,000.00 through an expedited process, securing all necessary regulatory approvals. This action pre-emptively mitigated the substantial systemic risks associated with a potential uncontrolled failure of Sberbank p.l.c. Croatia. After successfully resolving Sberbank's situation, the Croatian National Bank (CNB) Council, in its session on April 13, 2022, concluded the resolution procedure for Sberbank p.l.c. - under resolution, officially ending it at 11:59:59 p.m. on the same day.

On March 14, 2022, HPB assumed control and management of Sberbank, which has since operated within the HPB Group as Nova hrvatska banka p.l.c. (NHB). This acquisition has bolstered the HPB Group with an expanded branch network catering to retail and corporate clients, further advancing its strategic objectives of enhancing the domestically owned banking sector and supporting the Republic of Croatia's welfare and economic growth.

To fully leverage synergistic effects and benefits for shareholders and clients, HPB and NHB agreed on December 20, 2022, to commence the legal and operational merger of Nova hrvatska banka p.l.c. into HPB.

On March 1, 2023, HPB, as the acquiring entity, and NHB, as the entity being merged, executed a Merger by Acquisition agreement. The Croatian National Bank authorized this merger through its decision dated April 12, 2023, and on July 3, 2023, the Commercial Court in Zagreb finalized the merger by registering it, thus completing the legal and formal aspects of the Merger by Acquisition. The operational integration of the merger is slated for full completion by mid-2024. This Merger by Acquisition did not lead to an increase in HPB's share capital but resulted in the direct transfer of NHB's assets and liabilities to HPB without altering HPB's shareholder structure. Nevertheless, the merger immediately yielded significant positive outcomes for HPB's operations, enhancing its capital reserves by EUR 112 million and assets by EUR 831 million, thereby increasing its market share by assets by 1.1 percentage points. Additional positive operational impacts are expected in future periods as synergistic effects are realized.

Acquisition and merger of company Pronam Nekretnine Ltd.

On July 4, 2022, the Bank completed a transaction involving the acquisition of receivables and ownership interests related to loan, deposit, and other financial relationships between Nova hrvatska banka p.l.c. and Pronam Nekretnine Ltd., as well as Sberbank Europe AG in liquidation (hereinafter referred to as SBAG), totalling EUR 74,000,000.

This comprehensive deal enabled the Bank to acquire:

- A 100% ownership stake in Pronam Nekretnine Ltd.,
- Receivable rights held by SBAG against Pronam Nekretnine Ltd., stemming from a loan maturing in 2027, with a total nominal principal amount of EUR 5,300,000.
- Receivable rights held by SBAG against NHB, pertaining to specific loans and MREL loan due between 2024 and 2029, with a total nominal principal amount of EUR 66,000,000.

Through this transaction, the Bank furthers the optimization of the HPB Group's structure, securing business continuity by acquiring real estate properties essential for the core activities of HPB Group members, and minimizing future costs and expenses related to debt instruments. This transaction also concludes the legacy loan and deposit business relationships between NHB (and by extension, the HPB Group) and SBAG.

In September 2022, HPB initiated the merger process with Pronam Nekretnine Ltd. to achieve additional positive effects on its financial position and performance.

On November 11, 2022, HPB, in the role of the acquiring entity, and Pronam Nekretnine Ltd., the entity to be merged, executed a Merger Agreement for transitioning a limited liability company into a public limited company. The Croatian National Bank authorized this merger with its Decision on February 23, 2023. Following this, the Commercial Court in Zagreb, on March 14, 2023, approved the merger's completion by registering it, thus finalizing the merger process. Subsequent to the formal conclusion of the merger by the Commercial Court in Zagreb, Pronam Nekretnine Ltd. was officially removed from the court register.

Transition to the euro

In line with the defined plans and timelines for replacing the Croatian kuna with the euro, HPB was among the first banks to successfully adapt all its systems to the euro, commencing regular operations promptly at 8:00 AM on Monday, January 2, 2023. Reflecting its significant role in pension payments, the bank ensured immediate and uninterrupted disbursement to retirees across Croatia, alongside all other banking services.

Given the extensive range of diverse business activities that required timely adaptation, hundreds of individual development activities, meetings, and team coordination efforts were undertaken, recording over 80,000 working hours by IT specialists on this project. With approximately 250 minor and major changes to the IT system, this initiative was one of the largest projects in the bank's history.

As of January 1, 2023, with the euro becoming the official currency of the Republic of Croatia, the bank, in accordance with legal obligations, carried out a procedure to align its share capital and nominal share values with the provisions of the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia (Official Gazette nos. 57/22 and 88/22 – correction) and the Act on Amendments to the Companies Act (Official Gazette no. 114/22). In this context, following the Resolution of the General Assembly on August 30, 2023, the Commercial Court of Zagreb registered the share capital alignment in September 2023, as necessitated by the euro's introduction. This adjustment resulted in an increase of EUR 741,650.41, charged to the legal reserves, and included amendments to the Articles of Association's provisions. After the alignment, the bank's share capital stands at EUR 161,970,000, divided into 2,024,625 ordinary shares, each with a nominal value of EUR 80.00. The existing rights of the bank's shareholders under the law and the Articles of Association remained unchanged, and the stated total number of issued ordinary shares of the Bank did not alter.

Significant Milestones in 2023

1/2023

Successful euro transition with seamless operations starting January 2, 2023

3/2023

Pronam Nekretnine successfully formally merged with Hrvatska poštanska banka

7/2023

Completion of the legal merger of NHB into HPB

8/2023

A capital increase of 742k EUR for HPB was approved, aimed at transitioning to the euro by reallocating reserves

9/2023

The existing management team of HPB was confirmed for a new term, enhanced by two new members

10/2023

Launch of HPB SUPER SAVINGS, the market's most competitive savings product

11/2023

HPB wins the HRIO sustainability index award for environmental management

12/2023

Dividend approval at an extraordinary General Meeting and receipt of the ZSE award for the stock's notable price increase

Significant Milestones in the Corporate History of HPB p.l.c.

10/1991
Establishment of HPB
as a subsidiary of Croatian Post and Telecommunications ("HPT")

12/1995
Purchase and relocation to a new headquarter
in the famous building at Jurišićeva 4, Zagreb

4/2003
The first HPB branch opened in Split

7/2005
Corporate rebranding
and the adoption of a new logo
and a new slogan ("My Bank")

12/2010
The Republic of Croatia becomes the majority shareholder
through recapitalization

9/2015
HPB's recapitalization
through a combined private and
public offer (HRK 550 million)

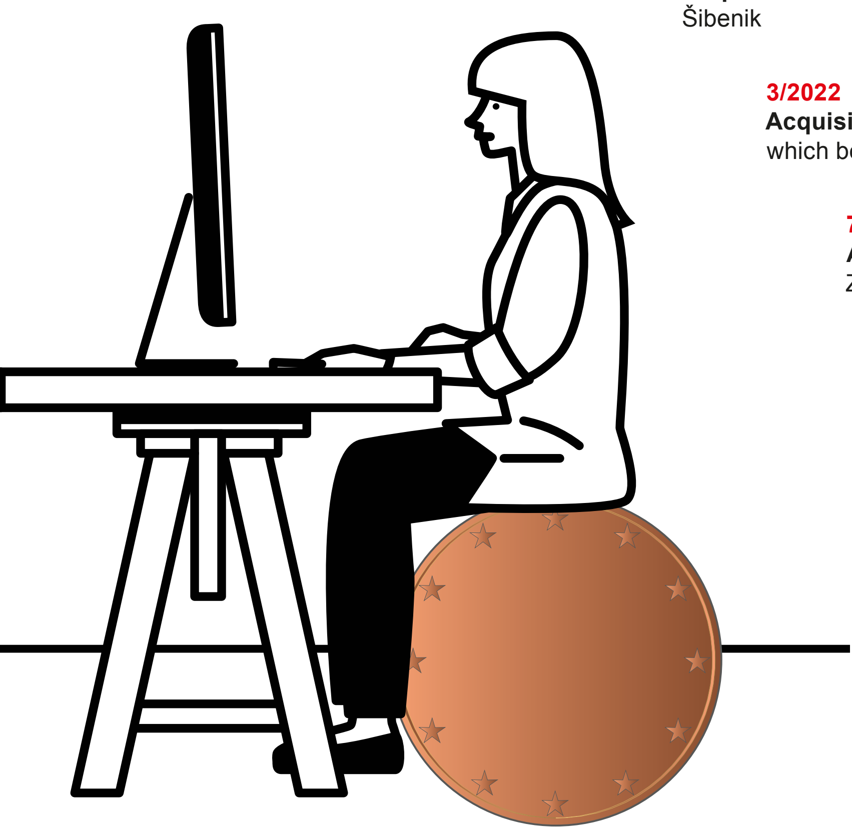
7/2018
Acquisition of Jadranska banka p.l.c.
Šibenik

3/2022
Acquisition of Sberbank p.l.c.,
which becomes Nova hrvatska banka p.l.c.

7/2022
Acquisition of Pronam nekretnine Ltd.
Zagreb

3/2023
Merger of Pronam nekretnine Ltd.

7/2023
Merger of Nova hrvatska banka p.l.c.



Business Activities of Hrvatska poštanska banka

The Bank provides a comprehensive suite of banking and financial services, catering primarily to retail and corporate clients. These services include:

- a variety of deposit and credit products in both domestic and foreign currencies for corporate and retail clients,
- transactional services,
- Issuance of guarantees, avals, and related products,
- factoring, financial lease services,
- securities-related services,
- Creditworthiness analysis and information services for both legal entities and natural persons natural persons carrying out their business independently,
- activities related to the sale of insurance policies in accordance with the law governing insurance,
- electronic money issuance,
- issuing and administering other payment instruments, when not classified as payment services under specific legislation,
- miscellaneous banking products and services, such as safes and Western Union services.

Regulatory Framework

The foundational and operational conditions for the Bank as a credit institution in the Republic of Croatia are governed by the Credit Institutions Act (Official Gazette Nos. 159/2013, 19/2015, 102/2015, 15/2018, 70/2019, 47/2020, 146/2020, and 151/2022) and the Companies Act (Official Gazette Nos. 152/2011, 111/2012, 68/2013, 110/2015, 40/2019, 34/2022, 114/2022, 18/2023 and 130/2023).

For the Bank's operations, the subordinate regulations issued by the Croatian National Bank, as the supervising authority, are of particular importance. These regulations govern the Bank's core activities and operations related to its core business, primarily the Decision on Governance Arrangements ("Official Gazette" No. 96/2018, 67/2019, 145/2020, 145/2021, and 51/2023).

The provision of investment and ancillary services and the conduct of investment activities in the Republic of Croatia are regulated by the Capital Markets Act ('Official Gazette' Nos. 65/2018, 17/2020, 83/2021, and 151/2022), subordinate regulations of the Croatian Financial Services Supervisory Agency, as well as EU regulations that directly or through implementation into the Croatian legislative framework uniformly regulate the capital markets across the entire European Union. Furthermore, the payment services provided by the Bank are governed by the Payment Services Act ('Official Gazette' Nos. 66/2018 and 114/2022), including the relevant subordinate regulations.

Given that the Republic of Croatia, whether directly or via its owned companies, is the majority shareholder of the Bank, the Bank accordingly adheres to specialized legal/subordinate regulations applicable to commercial entities under majority state ownership. Additionally, as the Bank's shares are listed on the regulated Zagreb Stock Exchange market, the Bank qualifies as an issuer. In this capacity, it is mandated to adhere to the provisions of the Capital Markets Act concerning the duties of issuers with securities listed on regulated markets. This obligation extends to the compliance with subordinate regulations issued by the Croatian Financial Services Supervisory Agency and pertinent EU regulations. Among these, Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation), which repeals Directive 2003/6/EC of the European Parliament and of the Council, along with Commission Directives 2003/124/EC, 2003/125/EC, and 2004/72/EC, stands out as particularly significant.

Throughout 2023, the Bank diligently pursued the demanding project of compliance with the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia (Official Gazette Nos. 57/2022 and 88/2022). This initiative was successfully concluded on December 31, 2023, adhering to all statutory deadlines and without negatively impacting clients. Emphasis was particularly placed on consumer protection and the practice of dual pricing, in line with the Code of Ethics devised for the reliable and transparent introduction of the euro in the Republic of Croatia. The Bank committed to this code promptly as dual pricing commenced, thus enhancing a safe environment for consumers.

The Bank adheres to EU legislation, including measures enacted by the European Parliament and the Council. Among these, Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013, concerning prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (published in the Official Journal of the European Union L 176/2013), stands as particularly crucial. Additionally, the European Commission's delegated and implementing regulations are pivotal for the operation of credit institutions in Croatia. Other pertinent legislative instruments govern corporate business activities within the Republic of Croatia and, to an extent, Croatian corporates and credit institutions' dealings with foreign entities (for instance, foreign laws, international agreements on anti-money laundering, international payments, etc.).

The Croatian Financial Services Supervisory Agency is the competent authority for overseeing the operations of the Bank as a credit institution that offers investment and ancillary services and conducts investment activities. The Croatian Deposit Insurance Agency oversees the fulfilment of obligations by credit institutions under the Deposit Insurance Act ("Official Gazette" Nos. 146/2020 and 119/2022). The Croatian National Bank implements rules and specifies procedures and instruments for the resolution of credit institutions in accordance with the Act on the Resolution of Credit Institutions and Investment Firms ("Official Gazette" Nos. 146/2020 and 21/2022).

The Agency for Personal Data Protection oversees the enforcement of personal data protection regulations, with a primary focus on Regulation (EU) 2016/679 of the European Parliament and of the Council of April 27, 2016. This regulation concerns the protection of natural persons with regard to the processing of personal data and the free movement of such data, and it repeals Directive 95/46/EC (General Data Protection Regulation, GDPR). Additionally, the agency ensures compliance with the national Law on the Implementation of the General Data Protection Regulation ("Official Gazette" No. 42/2018).

As a subject to the Act on the Prevention of Money Laundering and Terrorist Financing (Official Gazette Nos. 108/2017, 39/2019, and 151/2022), the Bank incorporates the stipulated measures, actions, and procedures within its operations to thwart and identify instances of money laundering and terrorist financing, ensuring the financial system is not exploited for such activities. Furthermore, in its commitment to preventing money laundering and terrorist financing , the Bank adheres to the European Banking Authority (EBA) Guidelines on money laundering and terrorist financing risk factors (EBA/GL/2021/02) and Compliance Guidelines (EBA/GL/2022/05).

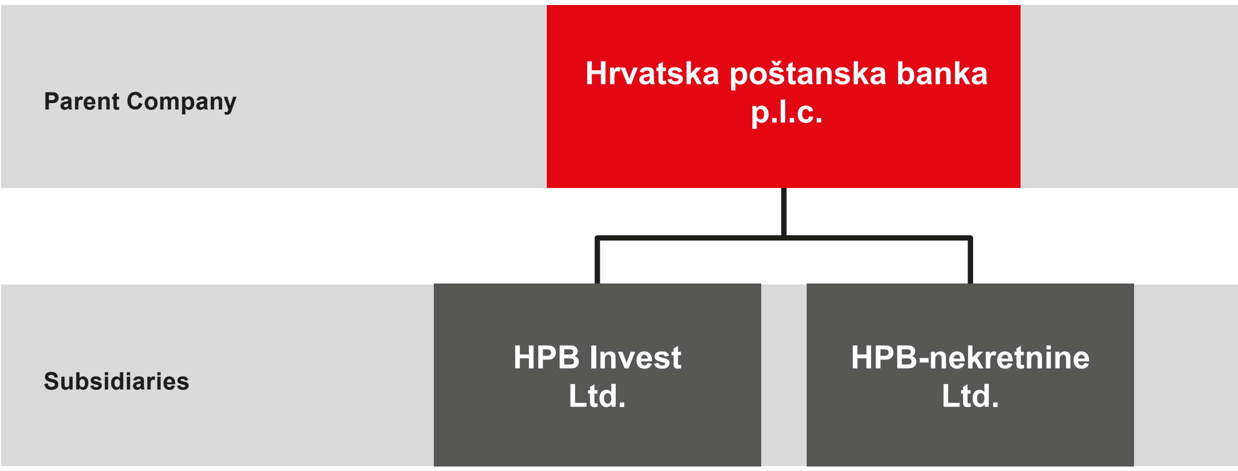
In conducting its business, the Bank implements strategies to mitigate fraud risks and fulfills its reporting obligations to regulatory bodies regarding fraud incidents, in line with Directive (EU) 2021/832 issued by the ECB on March 26, 2021. This directive pertains to the reporting requirements for statistics on payment transactions (ESB/2021/13), complemented by the Decision on the obligation to submit data on payment statistics for the purposes of the European Central Bank ("Official Gazette" No. 150/2022).

Overview of HPB Group and the Bank's Position within the Group

Hrvatska poštanska banka, a public limited company, is part of a group of related entities as defined by the Credit Institutions Act and is a 100% shareholder in the following companies, together constituting the HPB Group:

	Industry	State	Ownership %
HPB Invest Ltd.	Investment Funds Management	Croatia	100.00
HPB-nekretnine Ltd.	Real Estate Agency and Construction	Croatia	100.00

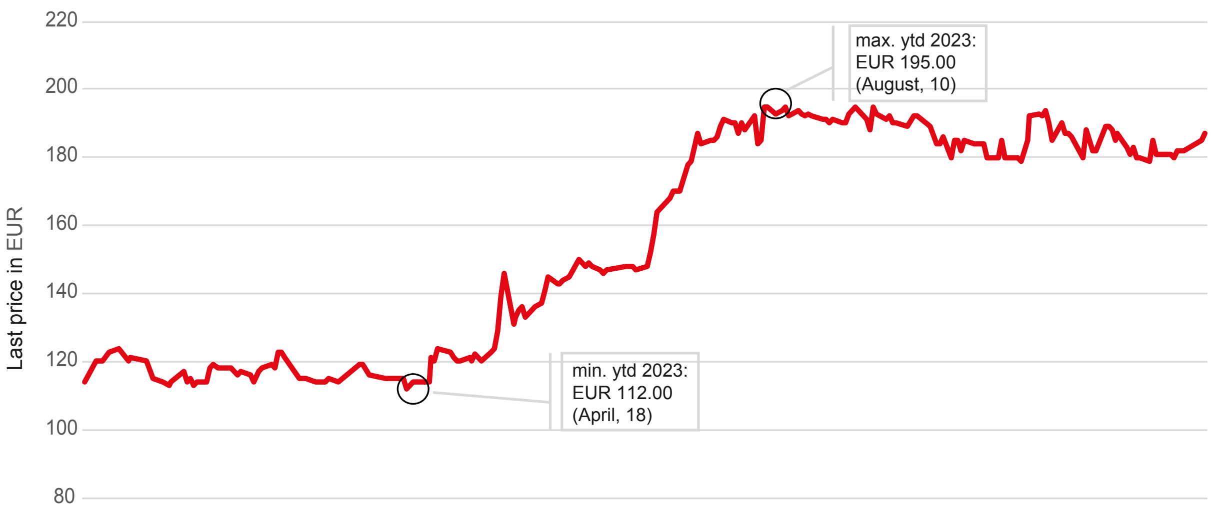
Hrvatska poštanska banka p.l.c. does not constitute a part of a concern as defined by the Companies Act.



HPB-R-A Share

HPB stock is listed on the Official Market of the Zagreb Stock Exchange. The last share price at the end of the reporting period in 2023 was EUR 187.00 (trading day December 29, 2023), representing an increase of 13.01 percent compared to the last recorded price in 2022 (= EUR 109.50 on the trading day December 28, 2022).

Trading of the HPB-R-A share during the reporting period was as follows:

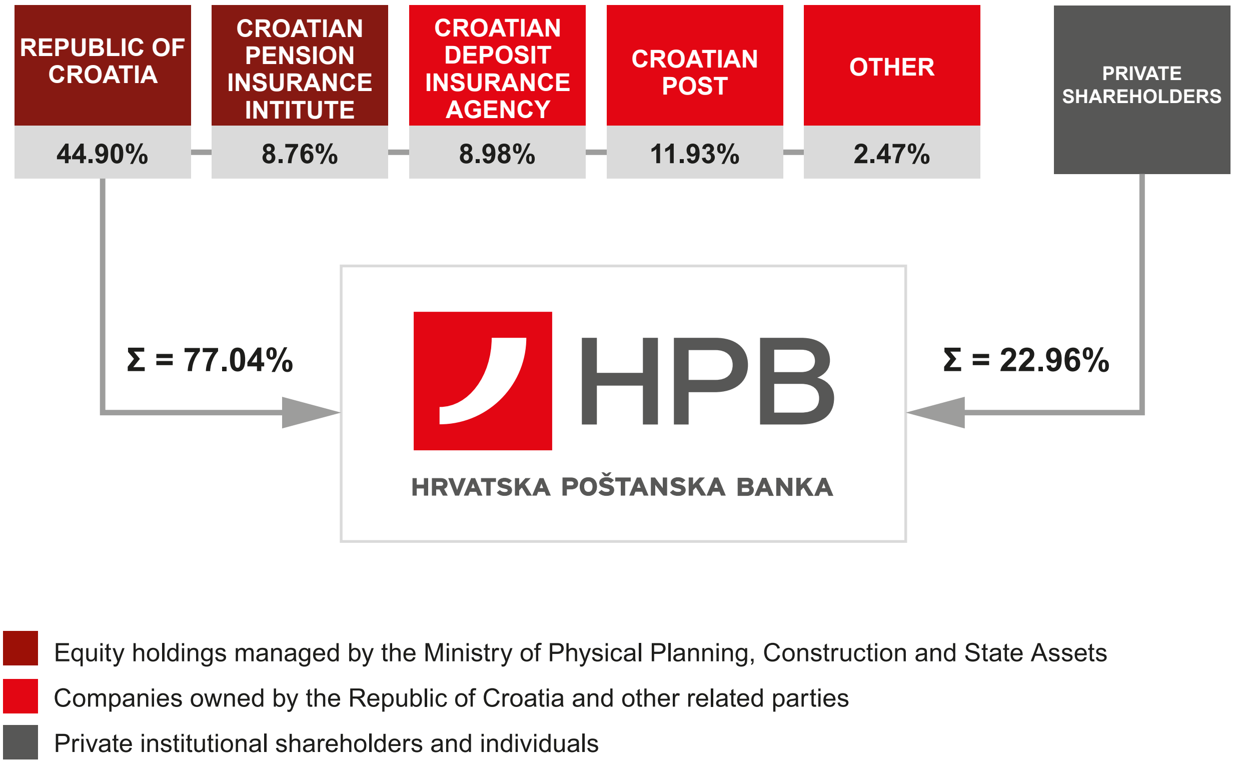


Stock data and details

Issue date	December 12, 2000
ISIN	HRHPB0RA0002
Segment	Official Market of the Zagreb Stock Exchange
Listed quantity	2,024,625
Share price as at December 29, 2023 (in EUR)	187.00
Market capitalization (in EUR million)	378.60

Ownership Structure of Hrvatska poštanska banka p.l.c.

On December 31, 2023 the Bank's ownership structure was as follows:

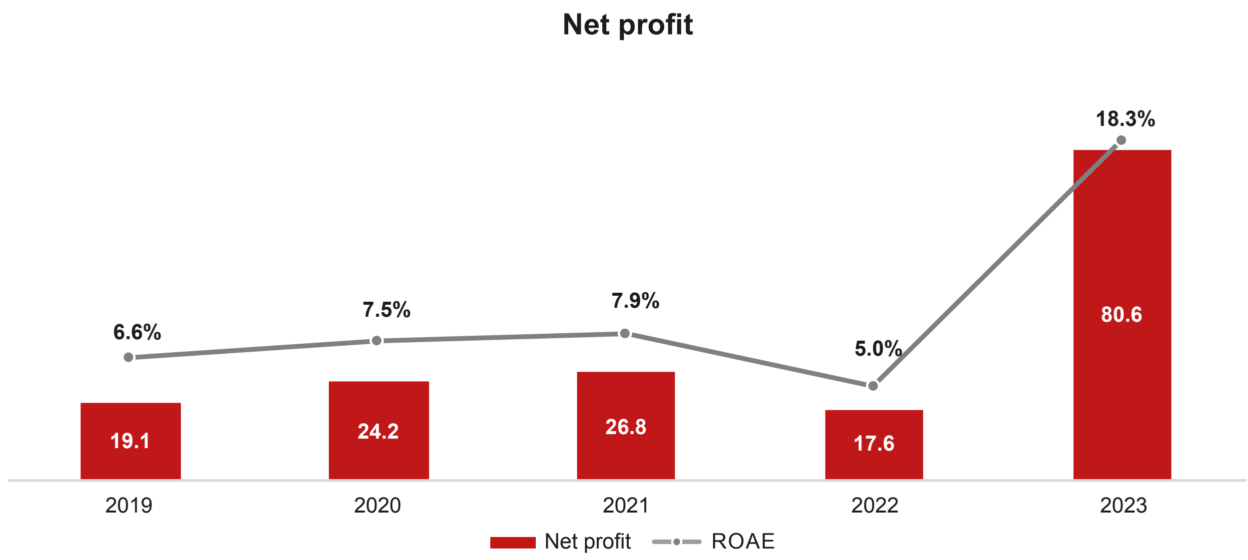


Source: CDCC

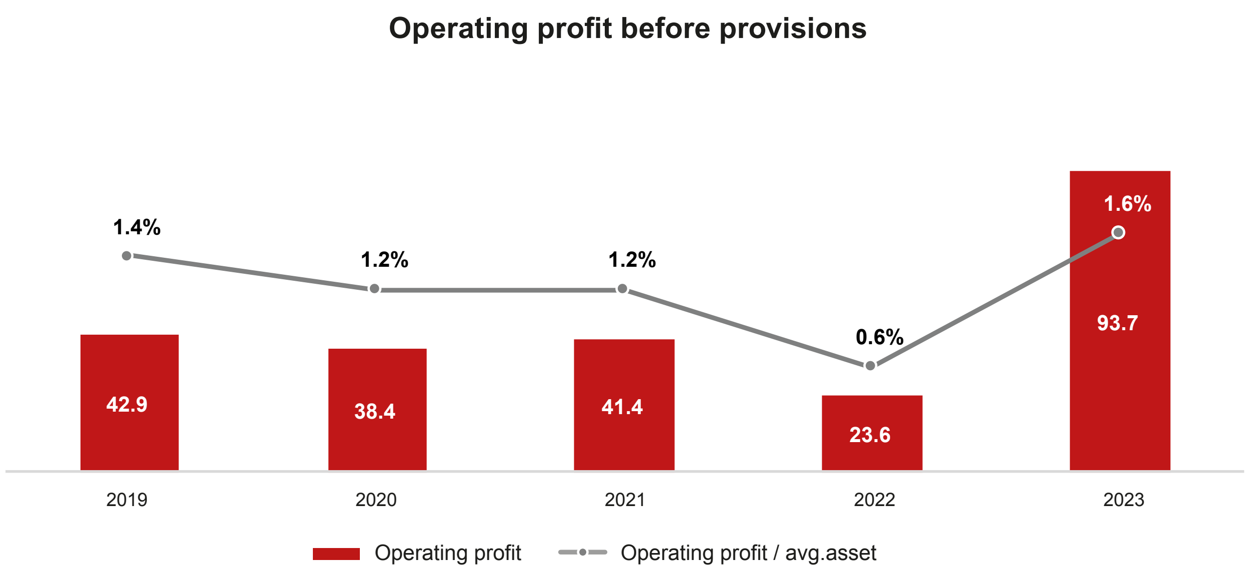
As of December 31, 2023, the Republic of Croatia, via the Ministry of Physical Planning, Construction and State Assets, along with other companies under its control, held 77.04% of the equity and voting rights in the Bank.

Business Overview and Financial Summary

In 2023, the Bank achieved a net profit after taxes amounting to EUR 80.6 million.

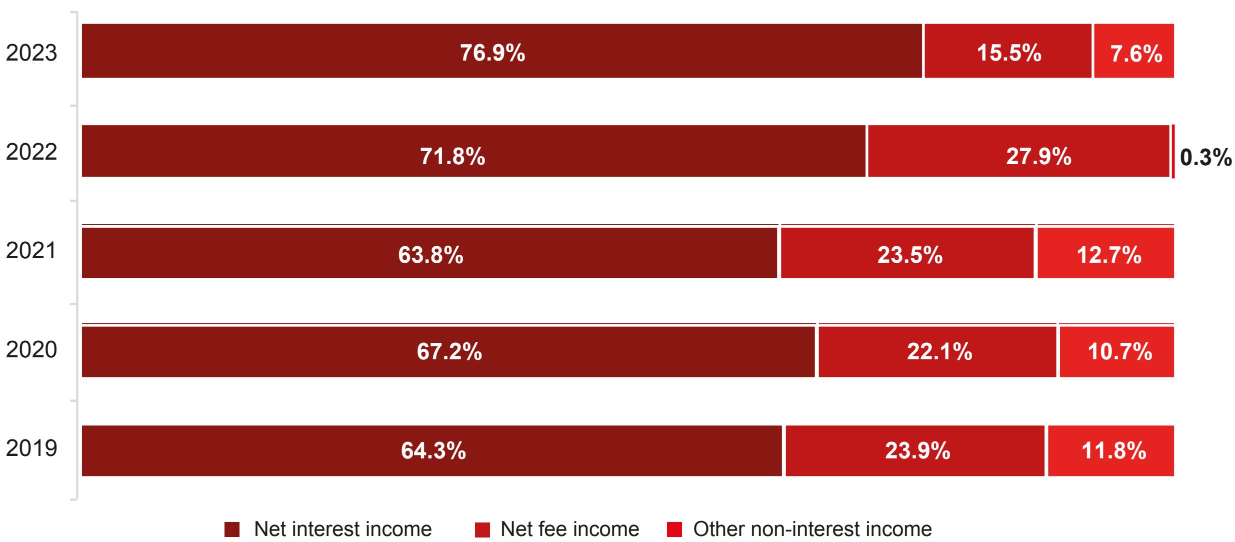


The operating profit before provisions was EUR 93.7 million. The provisioning cost for loan losses and other financial and non-financial asset adjustments amounted to EUR 5.0 million, while income from the reversal of provisions for liabilities and charges were EUR 5.4 million.



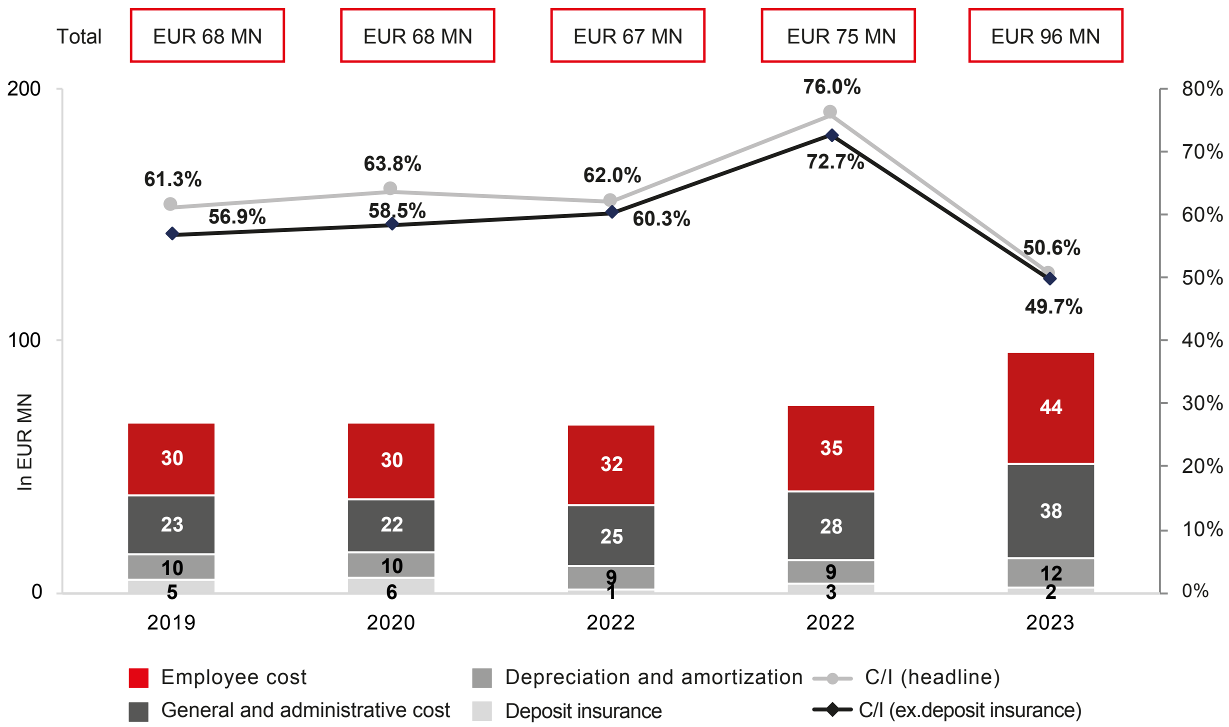
Net interest income of EUR 146 million accounted for 77 percent of total operating income.

Net Operating Income Composition for the Period January 1 to December 31

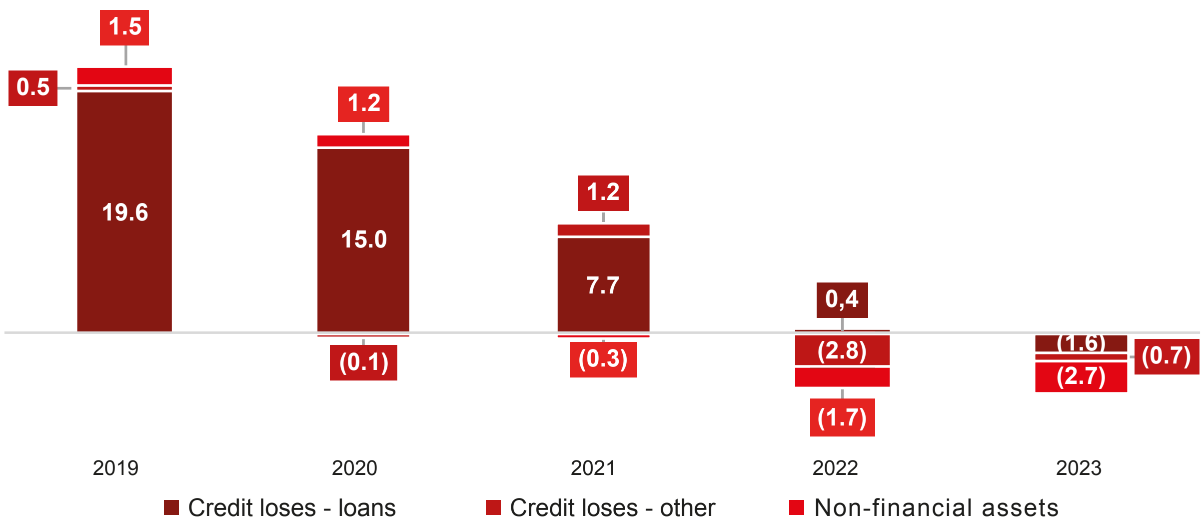


Operating costs increase mainly due to the extensive integration and project efforts associated with the merger of Nova hrvatska banka, alongside an overall increase in expenses driven by inflation. The Bank consistently endeavors to ensure cost management is executed with utmost efficiency.

Cost management 2019 – 2023

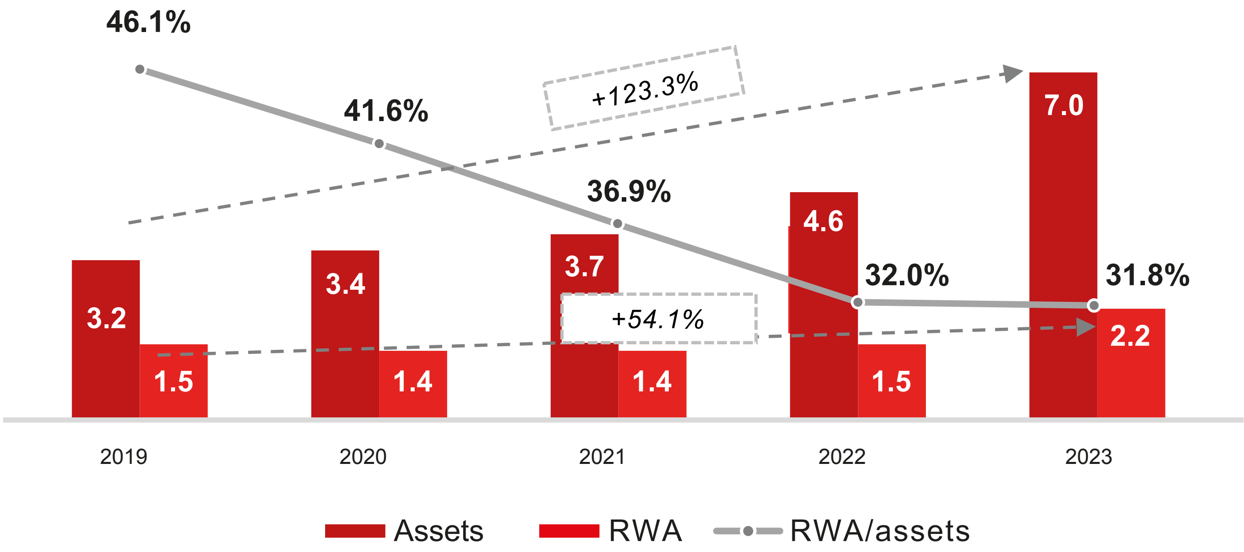


Provisions for losses



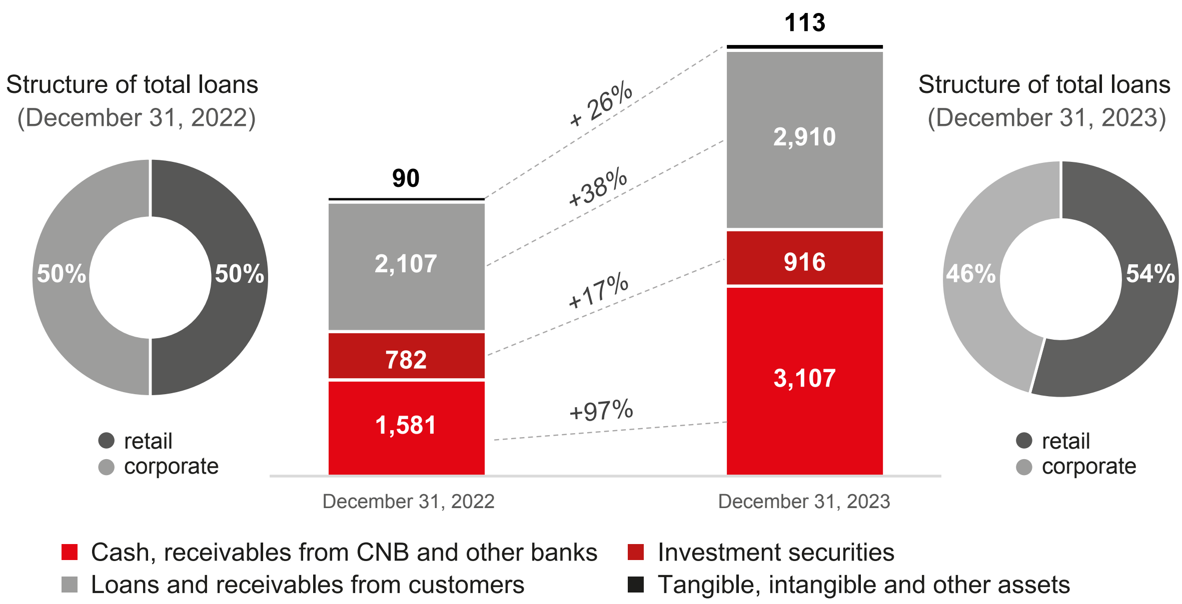
Assets and RWA

Concurrent with the growth in assets and loans and receivables from the Bank's clients, the risk-weighted assets increased, but as a result of strengthening the capital management culture, this growth was of lower intensity.



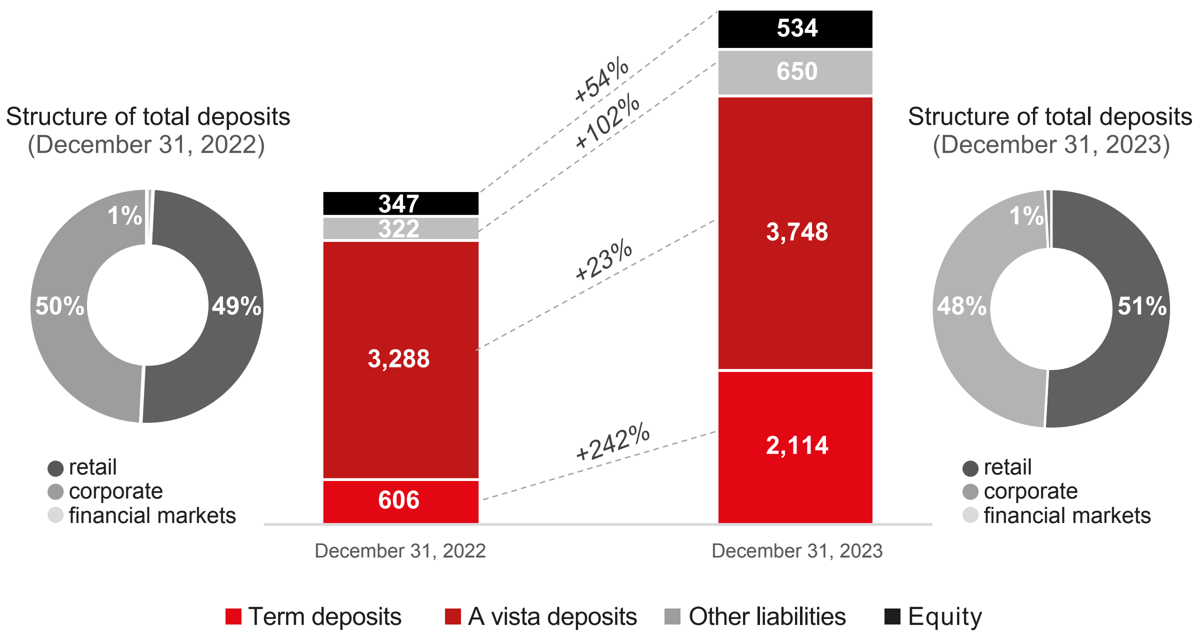
At the end of 2023, the Bank's assets amounted to EUR 7,046 million, representing an increase of EUR 2,483 million (+54.4%) year on year. With 41.3 percent, loans and receivables from clients constitute the most significant portion of the asset structure.

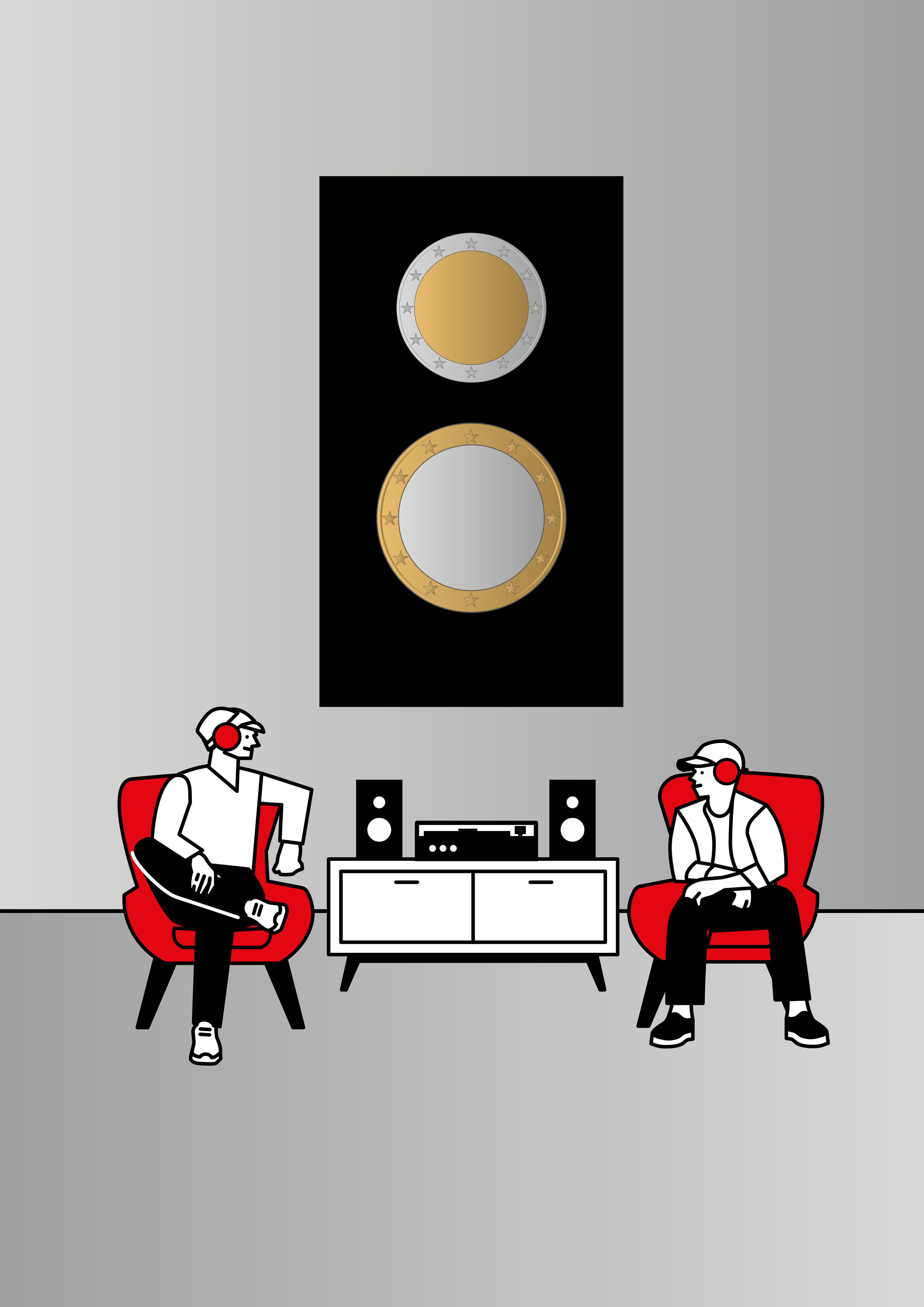
Assets composition



Total deposits grew by 50.7%. The retail and corporate sectors are on the rise, with a significantly higher growth in term deposits (+242%) compared to sight accounts (+14%), thereby bolstering the stability of funding sources.

Liabilities and equity composition





Overview of Business Segment Operations

RETAIL SEGMENT OPERATIONS

562 thousand	77 thousand
total clients	new clients

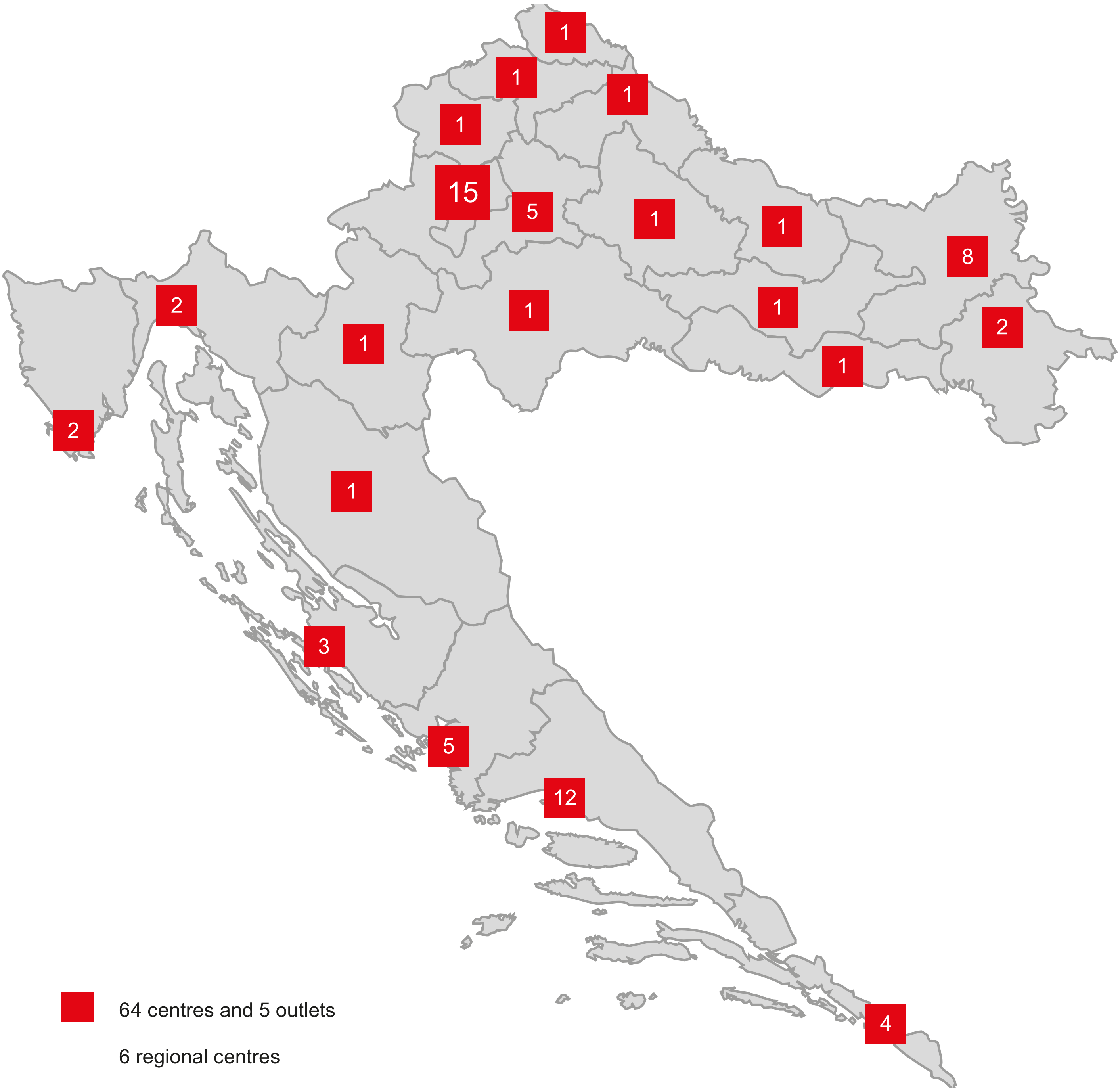
Retail operations are conducted via the Bank's extensive network, including 6 regional centres, 64 centre and 5 outlets, e-branch, in addition to leveraging the distribution network of Croatian Post, which encompasses over 1,000 post offices throughout the Republic of Croatia.

The past year was marked by the merger of Nova hrvatska banka, resulting in inorganic growth for the Retail Division portfolio. The gross loan portfolio witnessed an increase of EUR 590 million, reaching a total of EUR 1.715 billion subsequent to the merger on July 3rd, while the gross deposit portfolio expanded by EUR 405 million, culminating in a consolidated figure of EUR 2.206 million on the merger date.

The year 2023 was further characterized by a notable rise in retail deposits, concluding with an aggregate of EUR 3.0 billion. The gross deposit portfolio of this segment saw a consolidated increase of EUR 1.1 billion euros, or 57%.

The structure of term deposits in 2023 noted a pivotal shift in trend. Contrary to the longstanding movement of term deposits into demand accounts, this year was marked by a significant placement of client funds into term deposits, propelled by the launch of the highly appealing product -Super Savings. This initiative, aligned with the Bank's mission to foster better living standards in the Republic of Croatia and to help alleviate inflationary pressures, altered the deposit portfolio structure. As of December 31, 2023, over half (EUR 1.512 million) of the portfolio was in term deposits.

In terms of lending activities, amid market uncertainties and rising interest rates, the Bank proceeded with caution in entering new loan agreements, while continuing to prioritize the issuance of residential, more secure loans in alignment with its strategic focus. Following the merger of Nova hrvatska banka, which primarily comprises non-purpose cash loans, the Bank anticipates revisiting its strategic directions in the forthcoming period to preserve the portfolio's structure and volume in light of the significant repayments associated with the newly acquired portfolio.

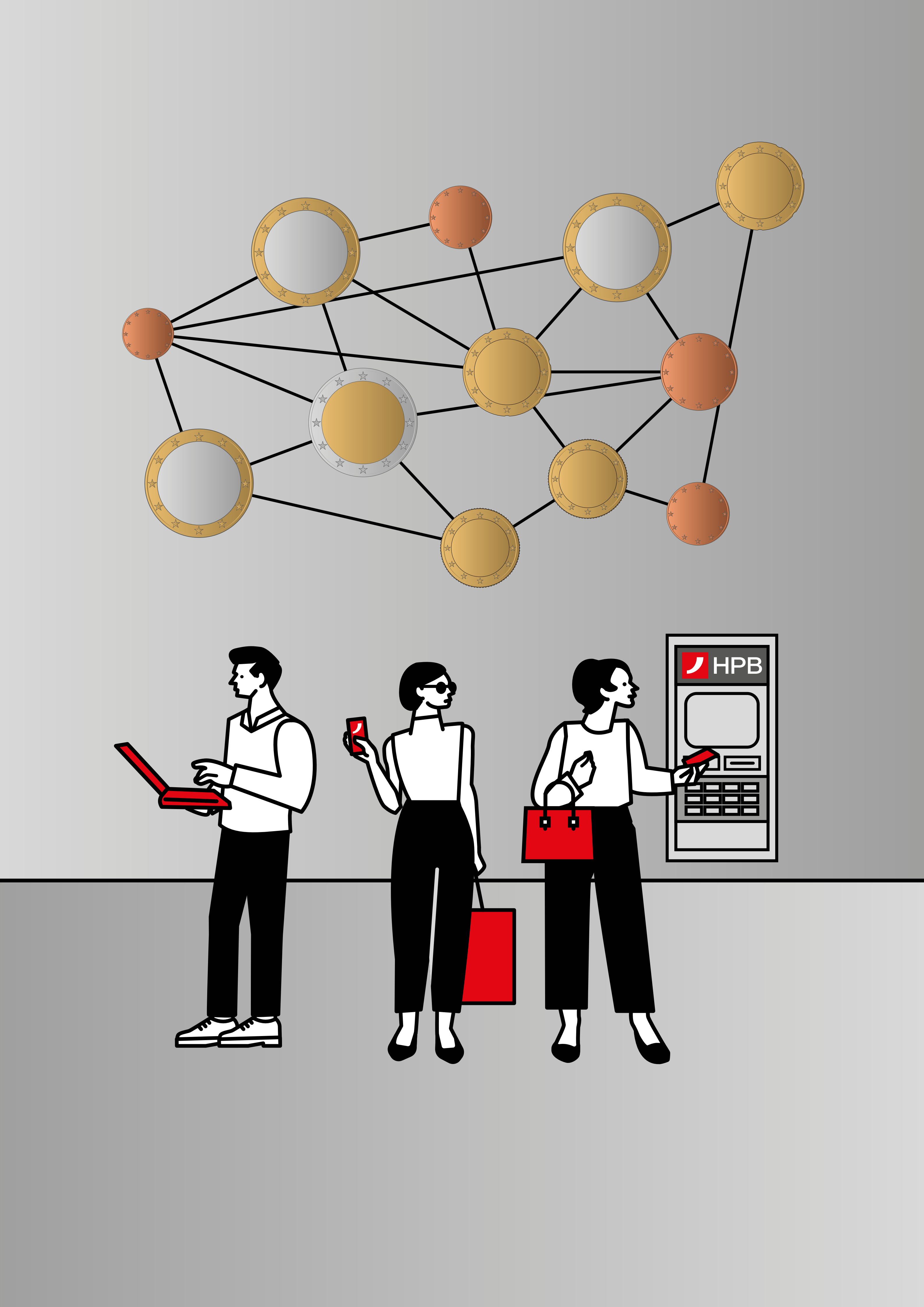


64 centres and 5 outlets

6 regional centres

Payment transactions and contracting of the Bank's products and services are available for retail customers in 1,016 post offices, while corporate services are accessible at 992 locations.

Retail credit operations in the financial corner of Croatian Post are available at 141 locations.


HPB

DIRECT BANKING DIVISION OPERATIONS

Card operations

621 ATM	729 thousand valid cards
23 various card products	3,019 EFT-POS terminals

Throughout 2023, the Bank successfully finalized the transition of Mastercard debit and credit cards to Visa credit cards, effectively migrating its valid card portfolio.

In July of the same year, as a result of the legal merger with Nova hrvatska banka d.d., the Bank incorporated the entire range of card products from the merged entity. This integration expanded the selection of Mastercard brand debit and credit cards to include a total of 7 distinct card products tailored for both retail customers and corporate clients.

By the end of 2023, on December 31, the Bank's portfolio boasted 729 thousand valid cards (spanning both Visa and Mastercard collections), marking an increase of 51 thousand cards compared to the previous year. This uptick was the direct outcome of the portfolio's consolidation and the streamlining of the database through the card migration process, alongside the assimilation of debit and credit cards from Nova hrvatska banka p.l.c.

Of the total number of valid cards, 97% were designated for retail customers, with the remaining 3% issued to corporate entities.

The Bank realized a total of 43.5 million transactions across its issuing and acquiring operations, achieving a year-on-year increase of 26%. The overall transaction volume amounted to 2.3 billion euros, reflecting a year-on-year growth of 20% compared to 2022. Transactions conducted with the Bank's cards totalled 35.8 million, indicating a year-on-year uptick of 18% compared to 2022.

Part of these achievements can be attributed to the integration with Nova hrvatska banka, alongside the results of ongoing business collaborations and initiatives aimed at engaging cardholders, including card activation efforts in partnership with Visa, Žuti klik, and other partners, a strategy set to continue forward.

In the ATM segment of its acquiring business, or in card acceptance, HPB has maintained a strong competitive stance in the market. Some ATMs have been deployed in association with the contractual partner NEXI, while others are strategically located to serve the needs of both the retail sector and the corporate world optimally. The ATM network was expanded by 30 exNHB ATMs in 2023, further enhancing accessibility and convenience for users.

The number of EFTPOS terminals saw a 5% year-on-year increase, while the ATM tally grew by 3%, predominantly within the NEXI partnership network.

Transactions using cards from other banks at the Bank's acceptance points surged by 50%.

In 2023, the Bank rolled out electrochemical ATM protection across most of its network, thereby meeting the regulatory demands for security. The upgrade for the rest of the network is scheduled for the next year.

Within the framework of integrating the Bank's systems with those of exNHB, efforts are being made to enhance instalment payment products and services with new features:

- Instalment payments via debit,
- The Visa "One for All" credit card, offering instalment selection options both pre- and post-transaction,
- ATM features for cash withdrawals in instalments and instalment selection via digital platforms, including mHPB and RIB.

Consistent with the Bank's strategic emphasis on digitalization, 2023 saw the continuation of the "Mobile Payment" initiative. This will introduce card virtualization and facilitate payments with the Bank's virtual cards through the Google Pay system.

The Bank has also completed the transition to the new euro currency, underscoring the extensive efforts made to convert all ATMs from the Croatian kuna to the euro.

Digital banking

The demand for digital banking services has consistently expanded, particularly for mHPB mobile banking. At the close of 2023, mHPB mobile banking boasted 127 thousand users, marking a year-on-year increase of 9% from 2022. Transaction numbers saw a 13% year-on-year growth, while transaction volume surged by 28% compared to the prior year.

The number of corporate clients utilizing our internet banking services climbed to over 11 thousand, reflecting a year-on-year increase of 6%. Moreover, the uptake of mobile banking by our corporate clients witnessed a significant year-on-year increase of 21%. The transaction volume on mHPB for corporate accounts experienced a remarkable 45% growth compared to the previous year.

Our clients are increasingly relying on digital channels for their daily banking needs. Therefore, aligning with our strategic focus on digital solution development, we aim to not only respond to the evolving needs of our clients but also to proactively offer services that anticipate future banking trends.

The year 2023 was marked by the Bank's integration with Nova hrvatska banka and the activities related to the legal merger of Nova hrvatska banka into HPB.

Following the legal merger, the focus shifted to intensive preparations for their operational consolidation, which included development of digital offerings:

- contracting mHPB for natural persons who own credit cards without a contracted transaction account,
- offering the ability to split transactions made via ATMs and credit cards through the mHPB mobile banking service,
- providing a streamlined, digital solution for transitioning NHB app users to HPB apps, eliminating the need for in-person visits to bank branches.

The transition phase between the legal and operational merger of the banks involved managing two concurrent digital systems (NHB's and HPB's digital services).

Moreover, within the framework of a comprehensive initiative to strengthen online payment security throughout the bank, 2023 saw continuous enhancements to mHPB and Internet Banking functionalities aimed at reducing online fraud risks:

- Setting daily transaction limits for online payments,
- Creating a list of verified recipients,
- Implementing robust measures for secure customer authentication,
- Establishing a blacklist for managing suspicious recipient accounts,
- Introducing first payment validation via Push notification,
- Overhauling the m-Token redistribution process.

At the same time, we were dedicated to crafting new solutions, focusing on enriching the digital channel user experience:

- **Online contracting of SuperSmart accounts**
  We carried out intensive activities to refine and implement enhancements to the process of online registration for the HPB SuperSmart checking/savings accounts through our e-Branch, avoiding the necessity for clients to visit bank branches.
- **PSD2**
  We continued the expansion and enhancement of our PSD2 interfaces aiming to both extend the capabilities and greatly improve the overall user experience

We're committed to keeping pace with market trends and pushing forward with the digital transformation of our operations to offer our clients secure, efficient, and user-friendly solutions.

The year 2023 for the Bank's website and HPB group entities was predominantly focused on integrating Nova hrvatska banka. This involved creating a microsite, *www.arhiva.hpb.hr*, which served as a technical resource to keep NHB customers informed during the transition to the operational merger. It houses all archival documents from the former NHB bank, which are to be kept for 7 to 10 years. This microsite facilitates access to essential information and services for former NHB clients, including NHB card activation processes, historical exchange rates, instalment splitting for card transactions, and entry into NHB's internet banking services.

Adjustments to adhere to the Personal Data Protection Act were also made in 2023. Moving forward, the Bank plans to focus on activities for additional modernization and the introduction of new features and services on its website for clients.

Overview of retail products and services:

Product group	Products and services in 2023
Accounts	• Current account - local currency • Basic account / Basic account for vulnerable groups - local currency • Special purpose accounts - local currency/foreign currency • Switching payment accounts - local currency/foreign currency • Giro account – local currency/foreign currency • Foreign currency account • SuperSmart HPB account - local currency • Payment operations – national/international, cash/non-cash, local currency/foreign currency • Payment operations – national, cross-border, and international payments • SEPA Instant Payments – 24/7/365 • SEPA direct debits • Reporting – monthly/annually • Foreign check processing • Standing orders
Savings	• Demand deposit – HRK/fx • Flexy Kockica children's savings account - local currency • Non-purpose term deposits – HRK/fx • Multipurpose term deposits – HRK/fx • Term savings with multiple deposits – HRK • Annuity savings- HRK/fx
Loans	**Housing Loans** • Housing loan with fixed interest rate • Housing loan without mortgage with fixed interest rate • Housing loan under the Housing Loan Subsidization Act • Housing loan for apartment purchase under the Socially stimulated housing construction program A with fixed interest rate • Housing loan based on HPB Housing savings **Multipurpose loans** • Tourist loan with fixed interest rate • Loan for private high school or grammar school enrolment fees, undergraduate, graduate, and/or postgraduate study with fixed interest rate • Loan for settling overdrafts on the current account in the Bank **Non-purpose loans** • Non-purpose loan • Non-purpose loan with a combination of fixed and variable interest rate • Non-purpose loan for pensioners • Lombard loan secured by term deposit • Non-purpose mortgage loan with a fixed interest rate • Non-purpose loan for users of housing loans under the Housing Loan Subsidization Act

<table>
<tr><th>Product group</th><th>Products and services in 2023</th></tr>
<tr><td>Cards</td><td>• Debit Mastercard contactless card
• VISA Electron/Debit current account card
• Maestro current account card
• Mastercard debit gyro account card
• VISA prepaid card
• VISA prepaid card for young people - IDEEEŠ!
• Visa instalments card
• Gold Mastercard card
• Mastercard Pošta & HPB card
• Mastercard credit card (revolving)
• Mastercard deferred payment card (charge)</td></tr>
<tr><td>E - banking</td><td>• mHPB
• mToken
• Internet banking
• SMS / e-mail services
• e-account
• e-cash
• e-citizens</td></tr>
<tr><td rowspan="7">HPB Invest</td><td>• HPB Short-term euro bond fund
• HPB Short-term bond fund
• HPB bond fund
• HPB Bond plus fund
• HPB Global fund
• HPB Equity fund</td></tr>
<tr><td>Non-life insurance</td></tr>
<tr><td>• Accident insurance
• Health insurance
• Insurance of goods in transit
• Insurance against fire and natural forces
• Insurance against other damage to property
• General liability insurance
• Credit insurance
• Insurance against miscellaneous financial loss
• Travel insurance</td></tr>
<tr><td>Life insurance</td></tr>
<tr><td>• Endowment insurance
• Term insurance
• Pure endowment insurance</td></tr>
<tr><td>Supplemental life insurance</td></tr>
<tr><td>• Accidental death benefit rider
• Other Supplemental life insurance</td></tr>
<tr><td>Croatia Insurance Voluntary Pension Fund Ltd.</td><td>• CROATIA INSURANCE 1000A voluntary pension fund
• CROATIA INSURANCE voluntary pension fund
• CROATIA INSURANCE 1000C voluntary pension fund</td></tr>
<tr><td>Other</td><td>• Brokerage services - Credit Intermediary Services
• RoboAdvice application advisory services - determining the suitability of open investment funds for clients
• Suitability assessment of open investment funds for clients
• Execution only
• Foreign exchange operations
• Safe deposit boxes
• ORYX Assistance - Home Assistance
• ORYX Assistance - Roadside Assistance
• TRIGLAV Assistance - Home Assistance
• TRIGLAV Assistance - Roadside Assistance</td></tr>
</table>

CORPORATE SEGMENT OPERATIONS

Large Corporates and Public Sector Division

1,603 total clients	**EUR 1,028 million** loan volume
871 local government and self-government units and associated companies	**EUR 2,246 million** deposit volume

Large Corporates and Public Sector Division served 1,603 clients, with a commitment to continually enhancing services and integrating innovative solutions to more effectively fulfil client requirements. The year 2023 saw the integration of Nova hrvatska banka (NHB) into Hrvatska poštanska banka, significantly boosting client numbers, loan volumes, and deposits beyond the usual growth and portfolio development.

The level of gross loans to legal entities within the Large Corporates and Public Sector Division amounted to EUR 1.028 billion, predominantly comprising loans to commercial entities and government funds. HPB remains dedicated to fostering enterprises and sectors that contribute to the economic prosperity.

As of December 31, 2023, legal entities' total deposits in this division reached EUR 2.2 billion, with EUR 1.9 billion in demand deposits mainly from Central State segment clients. This increase in deposits reflects not only the merger with exNHB but also a broader acquisition of clients and an influx of liquidity.

The overall financial system's high liquidity and intense competition among banks presented substantial challenges. The performance in the segments of large corporate, the central state, and local government units in 2023 was shaped by the need to adapt to the risks associated with market volatility, sparked by the war in Ukraine, the aftermath of the pandemic, rising interest rates, and intense pricing competition within the banking sector.

The beginning of 2023 witnessed a recovery in the large corporate segment, yet it concluded with a noticeable lack of substantial investments, influenced by inflation and a reduction in contracted European Union projects. The demand was primarily for liquidity and the refinancing of quality clients' existing debts to secure better interest rates and lower finance costs. The most significant loan growth was witnessed in the large corporate segment due to aggressive acquisition efforts throughout 2022 and 2023, resulting in sustained growth over the year. By concentrating on solvent clients and financing operational needs, the division compensated for the lack of investment loans.

Throughout 2023, local government units predominantly strategized their financing around competitive bidding processes to secure funds at the lowest possible costs. Against this backdrop, the Bank strategized to capitalize on opportunities that did not necessitate deep price reductions. The central state significantly fulfilled its financial requirements by issuing bonds and treasury notes, essentially minimizing opportunities for bank lending.

Local government units' investments in municipal infrastructure contributed to an impressive performance and a significant growth in the Bank's loan portfolio. A significant advancement was also achieved in financing working capital for both new and existing clientele. The Bank continues to finance long-term investments, maintaining its strong market position.

The development of new products and an increase in the Bank's specialized services, especially in co-financing projects with European funds through an established EU desk, continued. This initiative aims to offer expertise and achieve excellence in assisting clients from both the public and private sectors in financing and executing projects. Project financing was introduced to support significant projects in sectors like infrastructure, energy, and tourism, anticipating a rise in investment loan demand.

Ongoing successful collaborations with HBOR, HAMAG-BICRO, EBRD, and EIB are set to continue.

Moving forward, the Large Corporates and Public Sector Division will keep up its intensive collaboration and credit support to major economic players, state entities, and local government units. The focus will shift towards diversifying the loan portfolio to benefit large private enterprises and local governments, aiming to increase non-interest income while consistently enhancing the quality and breadth of our services.

Small and medium enterprises

15,293 total clients	**EUR 434.8 million*** loan volume
6 regional centres	**EUR 509.3 million** deposit volume

** including tradesmen*

The business division for Small and medium-sized enterprises (SMEs) serves over 15,000 clients, emphasizing business innovation and the continual improvement of financing opportunities.

Throughout 2023, we remained committed to bolstering the Croatian economy by fostering the growth of micro, small, and medium-sized enterprise projects. SME Division focuses on devising holistic financial solutions tailored to the needs of small and medium business owners.

As of December 31, 2023, the gross placements to entities within the SME Division amounted to EUR 434.8 million, with value adjustments accounted for EUR 56.7 million. The division's total deposits reached EUR 509.3 million, with EUR 396.4 million in demand deposits and EUR 112.9 million in term deposits. Particularly noteworthy in 2023 was the significant increase in term deposits, marking the division's contribution to curbing inflation in Croatia and thereby reinforcing confidence in the Bank.

The integration of Nova hrvatska banka's clients and staff into the SME operational framework was successfully executed by the SME Division.

The introduction of a novel business model for SMEs brings us closer to achieving operational and business excellence. This initiative aims to deliver services that are quicker, more efficient, and more competitive, advancing Hrvatska poštanska banka's position as the leading bank for the micro, small, and medium enterprise segment.

The Bank is dedicated to refining and speeding up the loan approval process. In 2023, a streamlined approval model was introduced to offer clients more accessible and faster financing options.

Aiming to broaden its network of banking services and make the bank more accessible to clients across the country, HPB is enhancing its partnership with Croatian Post. This strategic alliance has facilitated entrepreneurs with services such as setting up transaction accounts, accessing digital banking, obtaining cards and loans, and managing payment transactions even in areas without a dedicated bank branch or centre, making it the most extensive distribution network for fundamental banking products and services throughout the Republic of Croatia.

SME division is dedicating efforts towards streamlining the client portfolio and complying with regulatory demands. This initiative has led to an increase in active clients and a fully updated client database in terms of regulatory compliance.

Within the SME Division, the bank has reinforced and aims to further expand entrepreneurial credit activities through specialized lending programs. These are conducted in cooperation with HBOR, HAMAG BICRO, and other partners, all directed at supporting entrepreneurs in their business endeavours.

Overview of products and services in the corporate segment

Product group	Products and services in 2023
Payment operations	• Transaction account • Entrepreneur Packages • Escrow account • Payment operations – national, cross-border, and international • Account Statement detailing the changes and balances • Solvency data (BON2) • SEPA Direct Debits • SEPA Credit Transfers • SEPA Instant Credit Transfer • Electronic Funds Transfer at Point of Sale (EFTPOS) • E-commerce
SME financing	**Short-term financing** • Business Overdrafts • Working Capital Loans • Revolving Loan Facility • Refinancing Loan/Debt Consolidation Loan • Interim Financing Loan/Bridge Loan • Margin Loan • Loan Against Fixed Deposits • Loan for Tourism Season Preparation • Agricultural (Agro) Loan • Export Finance Loan • Discounting of Bills of Exchange Issued by Creditworthy Companies • Discounting of Securities, Bonds, Commercial Papers, and Bills of Exchange Endorsed by Government Institutions • Loan Based on the Assignment of Receivables from Creditworthy Domestic Companies • Loan Based on the Assignment of Receivables from Government Institutions • Purchase of Receivables from Creditworthy Companies (Factoring) • Purchase of Receivables from Government Institutions (Factoring) **Long-term financing** • Working Capital and Permanent Working Capital Loan • Investment Loan for Fixed Assets • Refinancing Loan/Debt Consolidation Loan • Loan Against Fixed Deposits • Loan for Tourism Season Preparation • Agricultural (Agro) Loan • Exporters' Loan for Purchasing Fixed Assets • Energy Efficiency and Renewable Energy Loan • Loan for Repairs and Maintenance of Common Areas in Residential Buildings • Post-Earthquake Reconstruction Loan for Buildings **Financial Monitoring Frameworks** • Framework for Utilizing Short-Term and Long-Term Financial Products (Loans, Guarantees, Letters of Credit) • Receivables Purchase Framework

Product group	Products and services in 2023
SME financing (continued)	**Special Loan Programs - in Partnership with HBOR** • Loan Program: Youth, Women, and Start-up Entrepreneurship • Loan Program: Private Sector Investment • Loan Program: EU Projects • Loan Program: Export Preparation • Loan Program: Working Capital • Loan Program: Financial Restructuring • Framework Loan for Working Capital Financing • Framework Loan for Investment Financing • Insurance of Performance-related Export Guarantees • Insurance of Exporters' Working Capital Loan Portfolio **Ukraine Measures - in Collaboration with HBOR** • Program for Individual Insurance of Liquidity Loans for Exporters - Measure to Support the Economy of the Republic of Croatia Following the Russian Aggression Against Ukraine • Program for the Portfolio Insurance of Liquidity Loans for Exporters - Measure to Support the Economy of the Republic of Croatia Following the Russian Aggression Against Ukraine • Program for Subsidizing the Insurance Premium - Measure to Support the Economy of the Republic of Croatia Following the Russian Aggression Against Ukraine **Special Loan programs – in cooperation with HAMAG-BICRO** • ESIF Program (Individual Guarantees co-financed from EU Structural and Investment Funds) with Interest Rate Subsidy Financial Instrument from the National Recovery and Resilience Plan funds • ESIF Program (Limited Portfolio Guarantees) • HAMAG Individual Guarantees for Rural Development • 'PLUS' Guarantee Program • Loans to Small and Medium-Sized Enterprises (SMEs) and Mid-Cap Companies **Special Loan Programs – other** • Loans in cooperation with the Ministry of Croatian Veterans for micro, small and medium-sized enterprises of Croatian veterans and children of Croatian veterans • Loans in collaboration with the Croatian Audiovisual Center • Long-term Investment Loans for Energy Efficiency (Green for Growth Fund, GGF) • Long-term Loans for Financing Investments and Working/Permanent Working Capital (European Fund for Southeast Europe, EFSE)

Product group	Products and services in 2023
Large corporates financing	**Short-term financing** • Business Overdrafts • Working Capital Loans • Revolving Loan Facility • Refinancing Loan/Debt Consolidation Loan • Interim Financing Loan/Bridge Loan • Margin Loan • Loan Against Fixed Deposits • Loan for Tourism Season Preparation • Loan for Financing Inventories of Wheat, Sugar, or Other Commodities secured by Collateral and based on Warehouse Receipts • Agricultural (Agro) Loan • Export Finance Loan • Discounting of Bills of Exchange Issued by Creditworthy Companies • Discounting of Securities, Bonds, Commercial Papers, and Bills of Exchange Endorsed by Government Institutions • Loan Based on the Assignment of Receivables from Creditworthy Domestic Companies • Loan Based on the Assignment of Receivables from Government Institutions • Purchase of Receivables from Creditworthy Companies (Factoring) • Purchase of Receivables from Government Institutions (Factoring) **Long-term financing** • Working Capital and Permanent Working Capital Loan • Investment Loan for Fixed Assets • Refinancing Loan/Debt Consolidation Loan • Loan Against Fixed Deposits • Loan for Tourism Season Preparation • Agricultural (Agro) Loan • Exporters' Loan for Purchasing Fixed Assets • Energy Efficiency and Renewable Energy Loan • Loan for Repairs and Maintenance of Common Areas in Residential Buildings • Post-Earthquake Reconstruction Loan for Buildings • Project financing **Financial Monitoring Frameworks** • Framework for Utilizing Short-Term and Long-Term Financial Products (Loans, Guarantees, Letters of Credit) • Receivables Purchase Framework **Special Loan Programs – in Partnership with HBOR** • Loan Program: Private Sector Investment • Loan program: Public sector investment • Loan Program: EU Projects • Loan Program: Export Preparation • Loan Program: Working Capital • Loan Program: Financial Restructuring • Framework Loan for Working Capital Financing • Framework Loan for Investment Financing • Insurance of Performance-related Export Guarantees

Product group	Products and services in 2023
Large corporates financing (continued)	**Ukraine Measures - in Collaboration with HBOR** • Program for Individual Insurance of Liquidity Loans for Exporters - Measure to Support the Economy of the Republic of Croatia Following the Russian Aggression Against Ukraine • Program for the Portfolio Insurance of Liquidity Loans for Exporters - Measure to Support the Economy of the Republic of Croatia Following the Russian Aggression Against Ukraine • Program for Subsidizing the Insurance Premium - Measure to Support the Economy of the Republic of Croatia Following the Russian Aggression Against Ukraine **Special Loan Programs - in collaboration with the EIB** • Loan to Mid-Cap Companies, Public Sector Entities, and Privately Owned Businesses **Special Loan Programs – other** • Loans in collaboration with Local Government and Self-Government Units • Loans in collaboration with the Croatian Audiovisual Center • Long-term Investment Loans for Energy Efficiency (Green for Growth Fund, GGF)
Guarantees and letters of credit	• Performance guarantees • Payment guarantees • Counter-Guarantees and Superguarantees • Standby Letters of Credit • Nostro (Import) Letters of Credit • Loro (Export) Letters of Credit • Documentary Collections
Cards	• VISA Business debit • VISA Bonus Plus • VISA Prepaid business card • VISA Business deferred payment card
E - banking	• mHPB • mToken • Internet banking • SMS service
Deposits	• Term deposits in HRK/fx • Demand deposits in HRK/fx • MREL deposit
Letter of Intent	• Non-binding Letter of Intent • Binding Letter of Intent
Other	• HPB Invest products • HPB-nekretnine services

FINANCIAL MARKETS OPERATIONS

The year 2023 continued to be dominated by high inflation and central banks' efforts to combat it globally and domestically. In response to the highest inflation rates in the last 30 years in the Eurozone and 40 years in the United States, central banks persisted in increasing reference interest rates, a policy initiated in 2022. The European Central Bank further elevated its reference rate from 2.5% to 4.5%, while the Federal Reserve adjusted its rate from a range of 4.25 - 4.50% to 5.25 - 5.50%. As this strategy led to a global decrease in inflation rates, 2024 is expected to witness a reduction in reference interest rates by central banks, proceeding with caution due to the still prevalent geopolitical uncertainties influencing inflation rates.

Croatia's accession to the Eurozone significantly benefited liquidity management, contributing to an unprecedented increase in interest earnings in conjunction with the continued rise in interest rates. The Bank managed to invest its liquidity surpluses, which by year-end amounted to as much as EUR 3 billion, in overnight deposits at the European Central Bank.

Following the switch to the euro, yields on the Croatian Ministry of Finance's treasury bills have aligned with the interbank EUR market rates, enabling the Bank to refinance its maturities at favourable yields. The Bank focused its other investments largely on fixed-income securities, witnessing a rise in their prices in the final quarter, which favourably influenced trading outcomes.

After a challenging year in 2022, the equity markets saw a significant positive reversal in anticipation of a downturn in interest rates. Consequently, the Bank experienced a considerable appreciation in the value of its equity and mixed fund investments with HPB Invest, which positively affected its trading income.

Due to its exceedingly high liquidity, the Bank abstained from participating in the ECB's regular repo auctions throughout 2023, effectively maintaining the required liquidity ratios. By year-end, the liquidity coverage ratio was impressively high at 255%.

Despite achieving a record in forex trading and exchange rate difference income in 2022, the euro's introduction predictably impacted this segment negatively. The trading activity with corporate clients and through exchange offices significantly decreased in 2023. Despite this downturn in volume and a decrease in forex trading outcomes, the Bank managed to align its performance with the projected figures through a slight increase in trading spreads with corporate clients and meticulous management of its forex position at minimal risk.

In cash operations, the Bank remains a prominent market player. Through its extensive branch and exchange office network and collaboration with FINA cash services, the Bank provides competitive cash trading and supply services. Despite a successful tourist season, the segment dealing with authorized exchange offices saw a significant decline with the euro's introduction, as the majority of tourists now come from the Eurozone. Moreover, the shift towards greater use of credit cards over cash continues.

Investment banking

The year 2023 saw the capital markets rebound, notably with stock prices recovering due to slightly lower inflation rates and robust performances from listed entities.

Despite a marginal decrease in overall turnover on the Zagreb Stock Exchange from the previous year, there was a notable 27% increase in the trading volume of stocks within the order book, and the Crobex index experienced a significant uplift of 27.98% over the year.

A significant event in the capital markets was the Croatian Ministry of Finance's issuance and listing of retail bonds in the first quarter, drawing participation from around 44,000 citizens, followed by an autumn issuance of treasury bills aimed at small investors, which attracted about 36,000 participants.

In 2023, the Bank also contributed as a co-arranger to the Croatian Ministry of Finance's bond issuances in the domestic market.

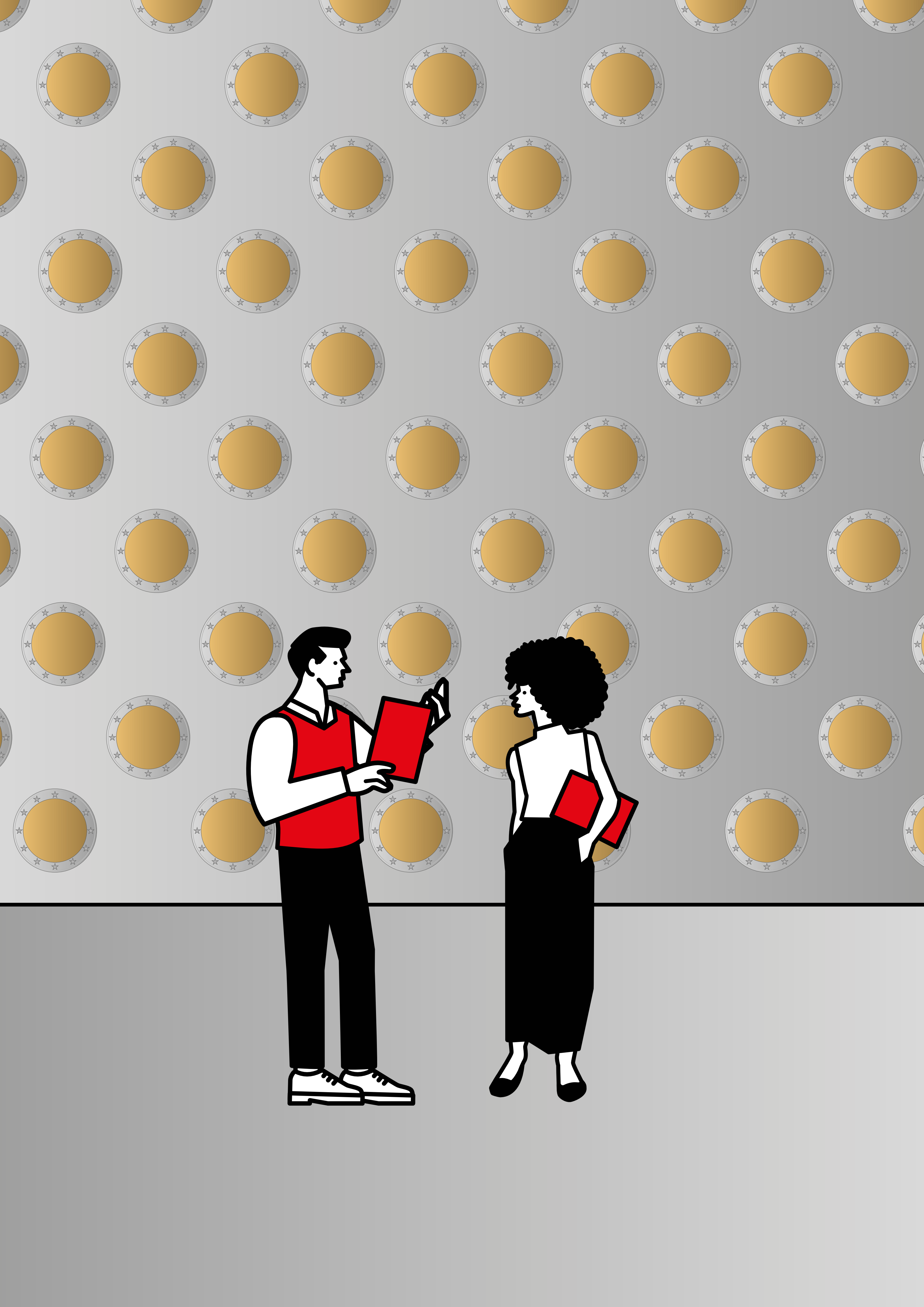
Regarding custodial and depository services for pension and investment funds, the year was highlighted by service improvements and compliance adjustments in response to a range of regulatory changes, continuing to see an uptrend in assets under custody and depository management.

Financial Markets Products and Services Overview:

Products	Description
Domestic Trading	• Engages in the buying and selling of financial instruments on the domestic market • Clients independently select which stocks to buy or sell, set their prices, and manage their portfolio distribution • Brokers advise clients on the investment risks associated with specific stocks, current market prices, market peculiarities, stock movements, and recommend diversifying investments across multiple stocks
Regional Trading	• Facilitates trading of financial instruments in Montenegro, Serbia, Macedonia, and Bosnia and Herzegovina • Clients independently select which stocks to buy or sell, set their prices, and manage their portfolio distribution • Brokers advise clients on the investment risks associated with specific stocks, current market prices, market peculiarities, stock movements, and recommend diversifying investments across multiple stocks
Global Trading	• Offers trading on leading global financial markets • Clients independently select which stocks to buy or sell, set their prices, and manage their portfolio distribution • Brokers advise clients on the investment risks associated with specific stocks, current market prices, market peculiarities, stock movements, and recommend diversifying investments across multiple stocks
Portfolio Management	• A specialized service allowing clients to entrust their funds to the bank for management • The service is aimed at those seeking to invest in securities and financial instruments over a period longer than one year for additional returns • Clients receive monthly, or more frequent, reports detailing all portfolio activities and financial instrument value changes, i.e. a report on the movement of the value of invested funds
Investment Services	• Investment services include investment advisory services, consulting on capital structure, business strategies, mergers and acquisitions, among other investment banking services
Securities Issuance	• The Bank manages issuances for the following financial instruments: a) debt financial instruments - short-term (commercial papers) and long-term (bonds) b) equity financial instruments - shares • Services encompass the entire issuance process, including organization, preparation, and conducting of securities registration and payment, along with other issuer-required tasks for a successful transaction
Securities Custody	• Primarily involves the safekeeping of assets and the execution of transaction settlements, alongside corporate action monitoring • Targeted at active capital market participants, investment and pension funds, institutional investors, and retail and corporate clients investing in financial instruments • Services include asset custody and safekeeping, transaction settlement on client orders, asset valuation, corporate action alerts, income collection from financial instruments, AGM representation, legislative change notifications

Products	Description
UCITS/AIF Investment and Pension Fund Depository Services	• A depository is a credit institution domiciled in Croatia or a branch of a credit institution from another EU member state, established in Croatia and authorized by the CNB (or the competent authority of that member state) to perform asset storage and administration services for clients, including custody and related services: - fund control tasks - fund cash flow monitoring - fund asset storage • The depositary is responsible for maintaining distinct accounts for each fund's assets, ensuring a clear separation from the assets of other funds, the depositary's own assets, and those of other clients and the management company. It oversees compliance with regulatory requirements and fund directives during the investment of fund assets. The depositary notifies the regulatory authority about the valuation of fund assets and share prices, processes transactions as instructed by the management company concerning the fund's assets, and reports on corporate actions. It facilitates voting at shareholder meetings, collects income and entitlements for the fund, and verifies that fund revenues are utilized according to regulatory and corporate directives. Additionally, the depositary is tasked with reporting any significant non-compliance with legal regulations and company policies to the regulator, ensuring the integrity and transparency of fund operations
My Broker - Web Trader	• My Broker - Web Trader service allows clients to trade securities and monitor their portfolio status online, independent of the bank broker's working hours. • Features include: - placing orders for the purchase and / or sale of financial instruments on the ZSE - cancelling, or modifying buy/sell orders on the ZSE - checking portfolio status - accessing account balance and transactions - viewing real-time stock prices on the ZSE with the top 50 offers - secure data exchange.
Short-term HRK loans for Buying Financial Instruments (Margin Loans)	• Short-term HRK loans for retail and corporate entities aimed at purchasing financial instruments listed on the Margin Loan Financial Instruments List, in line with daily determined investment limits for each instrument • The repayment term is up to 12 months • Loans granted up to 100% of the pledged financial instruments' value, ranging from a minimum of EUR 6,000 to a maximum of EUR 260,000.
FX Transactions - Spot	• Users: Both domestic and international retail and corporate clients, and financial institutions • Purpose: - buying foreign currencies for overseas payments or account deposits - selling foreign currencies from abroad inflows - foreign currency conversions
FX Transactions - Forward	• Users: Domestic and international corporate clients, and financial institutions • Purpose: - buying and selling foreign currencies at a pre-agreed rate for settlement dates beyond two business days from the agreement date - buying foreign currencies for overseas payments or account deposits - selling foreign currencies from abroad inflows - foreign currency conversions

Products	Description
FX Swap	• Users: Domestic and international corporate clients, and financial institutions • Purpose: - An agreement for the simultaneous purchase and sale of currencies at predetermined rates, comprising a spot and a forward transaction of opposite directions. - SWAP contracts involve currency exchange until maturity, essentially serving as a currency swap until the agreed upon date.
Cash trading	• Purpose: Manages the bank's cash position by maintaining optimal levels of both foreign and domestic cash reserves
Given Deposits	• Users: Banks • Purpose: Short-term financing • Terms: Typically up to one year, with the possibility of longer terms • Access: Funds are accessible from the value date until the maturity of the contracted deposit
Received Deposits	• Users: Domestic and foreign banks and financial institutions • Purpose: Earning yields on unutilized HRK or foreign currency funds • Terms: Fixed-term agreements, usually up to one year • Access: Funds are locked during the deposit term; early withdrawal agreements may exist with certain financial institutions
Repo/Reverse Repo Loans	• Users: Domestic corporate clients and financial institutions • Purpose: - A contractual agreement where financial assets (securities) are exchanged for cash It includes a commitment to execute a reverse transaction on a future date. - This agreement includes two transactions: both the purchase and sale of a security at a predetermined price -It operates as a collateralized loan agreement, where one party offers a financial security as collateral in return for cash from the other party - The repo contract ensures that all benefits and associated risks of the security ownership remain with the original owner -A reverse repo contract involves opposite transactions to those in a repo contract Terms: Similar to money market deposits, typically up to one year, but longer periods can be negotiated.
Securities Trading (Bonds, Treasury Bills, CNB Bills, Commercial Papers, Shares)	• Users: Domestic corporate clients and financial institutions • Purpose: Investing available funds in debt securities with fixed returns issued by states, local governments, cities, or corporations • Terms: - Short-term debt securities are issued for terms up to one year - Long-term debt securities have maturities longer than one year



Internal Control System and Risk Management Functions

Risk Management

At HPB, risk management is executed via a comprehensive system incorporating a variety of procedures and methodologies designed to identify, assess, monitor, and mitigate the array of risks the bank might face. The establishment of this risk control framework aims at minimizing unforeseen impacts and safeguarding the bank's operational stability, including the fulfilment of its obligations. This system undergoes regular updates to both its qualitative and quantitative measures, adhering to key principles in risk evaluation and management:

- Establishing thresholds for risk tolerance based on both internal risk limits and regulatory standards,
- Continual enhancement of processes for risk identification, measurement, assessment, and monitoring,
- Ongoing advancement of risk measurement and monitoring techniques, aligning with the evolution of the risk control function and supportive IT infrastructure.

HPB inherently encounters a variety of risks in its client dealings. The objectives in managing these risks include:

- Promoting stable and secure growth through a robust risk management framework,
- Enhancing the bank's risk profile,
- Implementing an integrated management system with uniform procedures across the bank.

Given the breadth and intricacy of its operations, HPB focuses on the following major risks within its risk management framework:

- Credit Risk,
- Market Risk,
- Liquidity Risk,
- Interest Rate Risk in the Banking Book,
- Operational Risk.

Credit Risk

Credit risk presents the likelihood of loss due to a borrower's failure to meet obligations to a credit institution. It stands as the predominant risk for HPB, as it does for all banking institutions.

In light of its significance, HPB dedicates substantial efforts to managing credit risk through established policies, procedures, and internal regulations.

The goal of managing credit risk is to maintain a high-quality credit portfolio that supports earnings and growth in lending activities. This is achieved by optimizing the return on investment while maintaining a balanced risk-reward ratio in line with funding cost.

Credit risk management at HPB involves multiple levels of governance, including:

- The Management Board,
- Designated committees (e.g., the Credit Committee) and individuals,
- Clear operational and organizational delineation between market-facing (front office) and risk management (back office) functions,
- Corporate Credit Risk Management Division,
- Retail Credit Risk Management Division,
- Strategic Risk Management and Risk Control Division.

HPB's approach to credit risk includes setting specific limits to manage exposure effectively.

To control and manage credit risk, various parameters are monitored, such as borrowers' creditworthiness, punctuality in meeting obligations to HPB, collateral quality, compliance with regulatory and internal capital adequacy requirements, and overall portfolio quality. Additionally, comprehensive assessments and recoverability evaluations are conducted for lending propositions before approval.

Furthermore, HPB addresses concentration risk and currency-induced credit risk within its overarching credit risk management strategy, applying consistent methodologies to mitigate these risks effectively.

Market risk

Market risk encompasses several types of risks associated with financial market activities, including position risk, foreign exchange (FX) risk, and commodity risk.

- Position risk pertains to potential losses from fluctuations in the prices of financial instruments or derivatives,
- FX risk relates to potential losses arising from changes in foreign exchange rates and/or the price of gold,
- Commodity risk involves potential losses due to fluctuations in commodity prices.

HPB's market risk management structure includes:

- The Management Board,
- A clear operational and organizational distinction between the trading front office and the risk management back office,
- The Assets and Liabilities Management Office,
- Strategic Risk Management and Risk Control Division.

Market risk tolerance is guided by predefined exposure limits to market risks. HPB has established specific limits at various levels—portfolio, sub-portfolio, and instrument level—tailored to the nature of the financial instrument and relevant market risk exposure measures. Additionally, stop-loss limits are set for individual equity securities identified as trading assets to manage risk effectively.

For the assessment and valuation of market risk exposure, HPB employs a methodology that includes the Value at Risk (VaR) method, measures of interest rate sensitivity (BPV), and limits related to the nominal amount of the instrument, ensuring comprehensive oversight and management of market risks.

Liquidity risk

Liquidity risk involves the potential loss due to a bank's inability to fulfil its financial obligations when they come due, encompassing both the bank's operational needs and its financial commitments. This risk is intricately linked with two primary aspects, which HPB manages collectively:

- Funding Liquidity Risk: The risk that the bank might not be able to meet its current and future cash and collateral requirements without adversely impacting its daily operations or financial outcomes.
- Market Liquidity Risk: The risk that arises from the bank's inability to efficiently close or offset positions at prevailing market prices due to market disruptions or lack of market depth.

The framework for managing liquidity risk at HPB includes:

- The Management Board,
- The Assets and Liabilities Office,
- The Assets and Liabilities Management Committee, with a dedicated Liquidity Subcommittee,
- Strategic Risk Management and Risk Control Division,
- Financial Markets Division.

HPB's approach to measuring and estimating liquidity risk exposure utilizes: The calculation of the Liquidity Coverage Ratio (LCR), Assessment of structural liquidity through indicators such as the Net Stable Funding Ratio (NSFR) and Additional Liquidity Monitoring Metrics (ALMM).

The propensity to assume liquidity risk is determined by established liquidity risk exposure limits. To manage liquidity risk effectively, suitable thresholds have been implemented for the liquidity coverage ratio as well as for structural liquidity indicators.

Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book pertains to the potential for loss due to fluctuations in interest rates that impact the bank's non-trading portfolio.

The framework for managing Interest Rate Risk in the Banking Book involves:

- Oversight by the Management Board,
- Guidance from the Assets and Liabilities Management Office,
- Strategic oversight from the Strategic Risk Management and Risk Control Division,
- Coordination by the Assets and Liabilities Management Office.

The bank's approach to IRRBB is guided by defined exposure limits to interest rate risk within the banking book.

To effectively manage IRRBB, the bank sets limits based on the impact of interest rate changes on the economic value of the banking book relative to regulatory capital, and on net interest income variations. Additionally, the bank evaluates the Value at Risk (VaR) for positions that are sensitive to interest rate movements, further reinforcing its risk management strategy.

Operational risk

Operational risk encompasses the possibility of losses stemming from inadequacies or failures in internal procedures, staff actions, technological systems, or external occurrences, inclusive of legal liabilities.

The organizational structure for managing operational risk comprises:

- Oversight by the Management Board,
- A dedicated Operational Risk Management team, including an Operational Risk Manager, Support Staff for Operational Risk, and Liaison Officers,
- An Operational Risk Management Committee,
- Corporate Security Office,
- Compliance Division,
- Strategic Risk Management and Risk Control Division.

The methodology for measuring or assessing operational risk exposure involves gathering and analyzing data on past operational risk events, conducting risk and control self-assessments, evaluating IT risk, analyzing the business impact with consideration of the ongoing viability plan, and assessing risks outsourced. Furthermore, the Bank assesses how the introduction of new products might alter its risk profile.

To mitigate operational risk, the Bank primarily employs an internal control system and, where applicable, risk transfer strategies (hedging). Additionally, it maintains a robust going concern management system.

Other risks

Other risks within HPB's operations, while present, are considered less critical compared to the major risks detailed earlier. The methodologies and strategies for managing these risks are somewhat simpler.

Concentration risk occurs when there is significant exposure, whether direct or indirect, to a single entity, a group of interconnected entities, or a central counterparty. This risk is further compounded when exposures share common characteristics, like operating in the same industry, being located in the same geographic region, engaging in similar business activities, or relying on the same collateral provider. Such concentration can elevate the risk of substantial losses, potentially threatening the bank's operational stability or significantly altering its risk profile.

Collateral Value Risk assumes inconvenient market movements of assets used as collateral which will be a collateral trigger and cashed in for receivables collection.

Sovereign Risk is the risk of loss arising when a government or its agencies fail to meet their financial obligations, potentially impacting other domestic borrowers' ability to fulfil their foreign debts.

Strategic Risk emanates from flawed business decisions or an inability to adapt to economic shifts, leading to potential losses.

Management Risk arises from limitations in establishing sophisticated governance structures, mechanisms, and controls.

Credit Value Adjustment Risk (CVA) involves adjusting the portfolio's value to reflect mid-market prices. This risk impacts all over-the-counter (OTC) derivatives across business activities, excluding credit derivatives used to mitigate credit risk exposure. CVA mirrors the present market valuation of a counterparty's credit risk from the institution's perspective, not the counterparty's market credit risk. The Bank routinely monitors and reports on CVA risk, which remains relatively minor given the extent of its operations.

Compliance Risk is the potential for financial or reputational damage from failing to adhere to regulations, standards, codes of conduct, and internal policies.

Business Risk refers to unexpected declines in business volume or profit margins that could severely affect the bank's market value. They are often triggered by market downturns, competitive shifts, or changes in consumer behaviour.

Legal Risk includes risks from litigation due to contractual breaches, legal actions against the bank, or decisions that adversely affect its operations and financial health.

Regulatory Risk pertains to changes in laws and regulations that could impact the bank's business model and profitability.

Furthermore, the Bank acknowledges the significance of ESG elements in its operations and is actively working on formulating and implementing these elements within its risk management system, with a particular emphasis on environmental risks.

Environmental, Social, and Governance (ESG) risks encompass the potential negative financial implications for the Bank stemming from the influence of environmental, social, or governance elements (ESG elements) on the Bank’s engagements or its invested capital.

Environmental risk entails the possibility of financial losses for the Bank due to the impact of environmental elements on the Bank’s contractual obligations or investments. These risks are tied to environmental objectives including:

- Mitigating the effects of climate change,
- Adapting to climate change,
- The sustainable management and conservation of aquatic and marine ecosystems,
- Transitioning towards a circular economy,
- Pollution prevention and control,
- Preserving and restoring biodiversity and ecosystems.

Environmental risk covers both the immediate physical risks and the broader transition risks.

Social risk involves the risk of financial losses due to the impact of current or future effects of social factors on the Bank’s contractual relationships or invested capital.

Governance risk pertains to the risk of financial losses resulting from the current or future effects of governance factors on the Bank’s contractual relationships or invested capital.

Internal Audit

Internal Audit plays a crucial role in ensuring that management and all employees adhere to and implement the Bank's internal control systems effectively. These systems are detailed in the Bank's internal policies and operational guidelines, with a particular focus on preventative measures and the early identification of any potential issues or shortcomings.

Internal Audit independently evaluates the adequacy and effectiveness of internal controls within each area under review.

Internal controls encompass a series of processes and procedures designed to manage risk appropriately, ensure the efficiency of operations, the integrity of financial and other reporting, and adherence to both internal policies and external regulatory requirements. They provide a reasonable assurance that business goals will be met efficiently, within set timeframes, and in compliance with relevant regulations. Internal controls are embedded within the operational and management processes of the Bank, involving both leadership and staff at all levels.

Key pillars of the internal control system include:

- Well-defined lines of accountability,
- Delimitation of powers and responsibilities,
- Specific control mechanisms, and
- A robust internal audit function.

Internal Audit

Internal Audit operates as an independent and self-governing entity within the organization, adhering to the professional standards of internal auditing and applicable laws. Its governance structure is based on a dual-reporting principle, with administrative accountability to the Management Board and functional accountability to the Supervisory Board or Audit Committee.

Organized into specialized teams with expertise in specific areas, Internal Audit focuses on: Information Systems, Financial Markets, Risk Management, Retail Banking, and General Audits.

The Internal Audit Charter guarantees its independence and organizational freedom,

ensuring direct and unrestricted access to data, personnel, and premises. Audit activities proceed through four stages: planning, testing, reporting, and follow-up, with planning rooted in a risk-based assessment.

The Annual Work Plan, endorsed by the Management Board upon the Audit Committee and Supervisory Board's approval, guides these activities.

Internal Audit's scope encompasses the bank's entire operation, including retail banking, risk management, information systems, financial markets, and general operations.

Audit findings are reported to the auditee's responsible party, the relevant Management Board member, the Audit Committee, and the Supervisory Board, ensuring comprehensive awareness and oversight of audit outcomes, recommendations, and compliance timelines. Individual internal audit reports/findings are presented to the Audit Committee during board meetings. This process is facilitated by the Administration Office as a standard part of document submission procedures.

Internal Audit compiles semi-annual and quarterly work reports, which are then submitted to the Management Board, Audit, and Supervisory Boards. Additionally, the quarterly reports are specifically provided to both the Management Board and the Audit Committee.

The report on work activities encompasses an overview of the annual work plan's execution, including a comprehensive list of both routine and special tasks carried out, as well as planned activities that were not executed, with justifications for their omission. Additionally, it offers a concise summary of critical observations made during audits, evaluates the performance of the risk management framework, and delivers an account on the adoption of audit-driven recommendations, proposals, and corrective actions, detailing any non-implementation along with the rationale behind it.

Compliance monitoring function

The compliance monitoring function is organized within the Compliance Division in Compliance and Data Protection Department, in Compliance Unit.

Executive Director - Compliance Division, who oversees the Compliance Monitoring Function, bears responsibility for the operation of the compliance control activities. This role encompasses specific duties and responsibilities as defined by the Bank's internal regulations, including but not limited to:

- coordinating compliance risk management,
- assessing compliance risks annually,
- formulating the division's annual work plan, operational strategies, methodologies, and budget,
- semi-annual reporting to the Management Board, Risk Committee, and Supervisory Board,
- issuing an annual assessment of the Bank's adherence to regulations related to investment services and activities,
- submitting at least an annual summary of activities regarding investment services and investment activity execution to the Management Board, the Risk Committee, and the Supervisory Board.

Executive Director - Compliance Division, Deputy Executive Director - Compliance Division, Director of Compliance and Data Protection Department including the employees within the Compliance Unit who undertake compliance monitoring tasks (hereinafter: the Compliance Monitoring Function) operate independently from the business sectors where compliance risks emerge, avoiding conflicts of interest.

The remuneration for the Compliance Monitoring Function's leaders and staff are not directly tied to specific operations and dealings within areas, processes, and activities where compliance risks emerge. The Bank's policies strictly regulate the acceptance of gifts and other benefits, secondary employment, memberships in boards of other entities, and scenarios potentially leading to conflicts of interest to ensure impartiality.

Leaders and employees tasked with Compliance Monitoring are empowered to seek and gain access to all necessary information, data, documents, IT systems, and additional resources required for performing their responsibilities. It's mandatory for other bank organizational units to assist by providing the information sought.

The responsibilities, extent, and method of operation, or rather, the working methodology and the system for reporting by the Compliance Monitoring Function to the Executive Board, Risk Committee, and Supervisory Board, are outlined in the following internal documents:

- Business Compliance Policy,
- Rulebook on Business Coordination,
- Business Compliance Methodology.

Compliance monitoring tasks encompass:

1. Identifying and evaluating the compliance risks the Bank faces or might face,
2. Providing guidance to management and other relevant personnel on applying applicable laws, standards, and rules, including updates on developments in these areas,
3. Analyzing the impact of changes in relevant regulations on the Bank's operations,
4. Reviewing the compliance of new products or procedures with applicable laws and regulatory changes, in collaboration with the risk control function,
5. Managing sensitive information as per capital market regulations and maintaining required records and registers,
6. Overseeing the documentation of phone conversations and electronic communications related to investment services and activities,
7. Managing the system for addressing client complaints concerning investment services and activities,
8. Overseeing compliance activities related to investment product management,
9. Monitoring and ensuring the qualifications and professional standards of employees involved in investment services and activities,
10. Offering an overarching assessment of the Bank's adherence to regulations governing investment services and activities,
11. Informing the Management Board, Supervisory Board, and Risk Committee about compliance risks

and other control functions if high compliance risk is identified,

12. Collaborating and sharing information with the Strategic Risk and Risk Control Sector regarding compliance risks and risk management,
13. Advising on the development of training programs related to compliance,
14. Checking operations against relevant regulations and reporting on these checks,
15. Ensuring that Bank employees comply with legal and other regulations and uphold the high ethical and professional standards outlined in the Bank's Code of Ethics, and reporting findings to the Management Board,
16. Overseeing the Bank's operational compliance with Articles 80 and 81 17) of the Capital Market Act and the regulations on organizational requirements and rules of business conduct for providing investment services and activities.

The compliance function actively engages with the Bank's management and staff across various organizational units, offering guidance on adhering to applicable regulations and fulfilling specific business responsibilities. It plays a crucial role in ensuring compliance with regulatory requirements, identifying compliance risks, and managing them effectively. This function must maintain its objectivity and independence while collaborating with other organizational units.

The compliance monitoring function also collaborates closely with the Internal Audit office and the Strategic Risk management and Risk Control Division. This partnership is particularly focused on overseeing the adoption of recommendations from supervisory and regulatory bodies, ensuring a cohesive approach to governance and risk management across the bank's operations. This collaboration focuses on monitoring the implementation of recommendations from supervisory and regulatory bodies, aiming to establish a robust internal control system across all business areas without duplicating efforts or creating conflicts of responsibility.

Furthermore, the compliance function liaises with external auditors and relevant regulatory authorities (CNB, HANFA), assisting in the execution or oversight of the implementation of their recommendations to the Bank.

By January 31st of each year, the Executive Director of the Compliance Division presents the annual compliance monitoring function's work plan to the Management Board, Risk Committee, and Supervisory Board for approval.

Additionally, as part of the annual report, the Executive Director annually evaluates compliance risks, aligning the assessment with the compliance priority categories outlined in the Compliance Policy, and reviews the bank's adherence to applicable regulations.

The annual report is submitted to the CNB by March 31st for the preceding year.

Annually, within the context of the annual report concerning investment services and activities, the Executive Director of the Compliance Division delivers a comprehensive review of the bank's adherence to the Capital Market Act, Regulation (EU) No. 596/2014, Regulation (EU) No. 600/2014, and related regulations enacted by CFSSA.

The annual report on compliance activities related to investment services and activities must be filed with the Croatian Financial Services Supervisory Agency (CFSSA) by 31 March for the preceding year.

Annually, as part of their review of the Compliance Function's annual report, the Bank's Management assesses the effectiveness and appropriateness of the Compliance Function's procedures. Based on this evaluation, they draw conclusions regarding the performance of the Compliance Function, report these findings to the Risk Committee and the Supervisory Board, and implement measures to address any identified shortcomings.

The oversight of the Compliance Function's activities is conducted by the Internal Audit Office, which provides continuous and comprehensive monitoring of the Bank’s operations.

Development plan of Hrvatska poštanska banka d.d.

The summary and basic framework of the corporate strategy, which is presented in this document, is based to a significant extent on the document Business Strategy of Hrvatska poštanska banka 2023 - 2026, which was approved by the Supervisory Board in accordance with Article 48 of the Credit Institutions Act of February 27, 2023.

Geostrategic risks such as the war in Ukraine or the escalation of the conflict in the Middle East could result in a sequence of events that could have a short-term impact on the realization of the Bank's development plan. However, in addition to the described geostrategic risks, the banking sector in the world, including in the Republic of Croatia, is significantly influenced by technological changes (FINTECH & AI) that have already or in the future will be able to completely or partially bypass classic financial intermediaries in the provision of services, without its holders being exposed to extensive regulatory requirements.

Challenges and dangers that threaten the Bank in a competitive environment are insufficient investment in new technologies and the future trends, higher cost of financing sources, inefficiency, lack of continuity, inability to adequately reward the best employees, lack of knowledge exchange (usually characteristic of large financial groups) and limited capital.

The strategy presented in this document is based on reaching the target desired state in the long term ("vision") while achieving the business purpose of HPB ("mission"). In order to respond to the challenges of the future, the Bank, respecting its specific position as the largest domestically owned commercial bank, defined the vision and mission as follow:

Mission

We create conditions for a better life in Croatia.

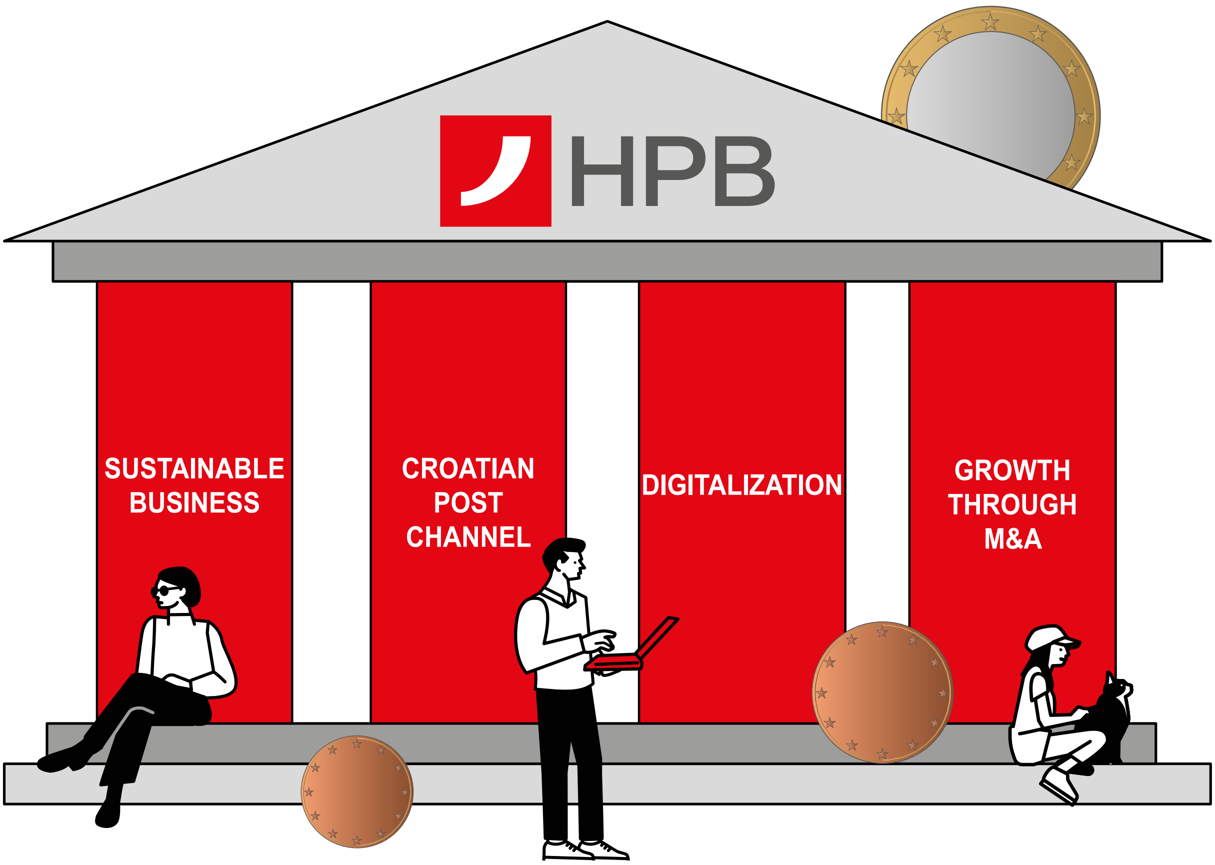
Vision

A Croatian-owned bank with relevant market influence that cares best for clients, shareholders and the community.

The following areas have been identified as the foundations of development - pillars of development:

- **Sustainable operations** – to achieve its mission, the Bank wants to contribute to current economic development without jeopardizing the needs of future generations. Therefore, the Bank is focused on sustainable development and achieving a balance between all sustainability factors; environmental, social and management as one of the foundations on which Bank plans to achieve all its business goals.
- **The Croatian Post channel** is the Bank's most important distinguishing element. Contractual, IT and ownership connections are the basis of the largest branch network in Croatia, which is used for contracting and selling part of the financial products from the HPB range. The introduction of new products into the HP network will contribute to the results of both strategic partners and benefit customers.
- **Digitalization** represents the Bank's focus on monitoring trends in banking operations and non-banking competition on the one hand, and on the timely recognition of the increasingly refined needs of clients on the other hand. Digitization for credit institutions is no longer an advantage, but a prerequisite for survival, and will be implemented from two aspects: (i) the client's aspect, which refers to the functionality of products and services, and (ii) the internal aspect, which refers to automation and process efficiency. Within the digitization activities, the adaptation of the IT architecture will be carried out through the reduction of the existing core solution and the transfer of key elements of the flexibility of the IT system to satellite applications, as well as the implementation of a new data management system as a key factor in supporting decision-making.
- **Growth through M&A** – in the previous period, the Bank successfully achieved several business combinations, which significantly increased its internal competencies and experience. The success with which these processes were achieved together whit the financial and synergistic effects, give the Bank an incentive to further increase its market share based on this pillar.

Pillars of development



ESG as a foundation for business transformation	The client comes first	Strengthening the market position
Implementation of ESG factors in business processes; integration of risk and materiality assessment	Digitization of business	Completion of the merger of Nova Hrvatska banka
New model of non-financial reporting; new standards	Development of E2E digital acquisition channels	Consideration of opportunities for inorganic growth
Sustainability as a corporate priority for all three factors	Availability of products and services through the largest distribution	To become an excellent place to work and develop
Ethical and effective leadership	Speed and efficiency in customer support	Achieving goals through an effective management system; achieving competitiveness in the part of payment of receipts

Retail operations

The Retail Banking Division represents a cornerstone of the Bank's strategic initiatives. Moving forward, we are committed to refining our existing offerings and rolling out innovative products, alongside elevating the calibre of our service and customer engagement, to boost our active client base. Our strategy includes ongoing partnerships with select employers and strategic alliances, understanding that continuous service enhancement is key to achieving our acquisition targets and overall growth. This commitment is supported by regular training for our staff and meticulous service quality evaluations.

The year 2023 was pivotal due to the integration with Nova hrvatska banka, a process that prompted further advancements in digitizing our product contracting processes and enhancing the features of specific offerings to better serve our customers.

Looking into 2024, our emphasis will shift towards finalizing the operational integration with Nova hrvatska banka by seamlessly transitioning all products to our existing platforms. Subsequently, in the latter half of the year, our focus will shift to expanding our product features, including unveiling new banking packages, further digitalizing the processes for account openings and loan applications, and streamlining operations to elevate the customer experience significantly.

Large Corporates and Public Sector Operations

The Large Corporates and Public Sector Division is steadfast in its commitment to vigorously expanding our business connections with existing clients and actively pursuing new partnerships, guided by the highest standards of banking practices In this endeavour, we will carefully balance market-driven commercial opportunities with the Bank's prudent risk management approach.

Future growth strategies for the department hinge on broadening our portfolio of active, significant clients both domestically and internationally. This expansion will be supported through the provision of investment credit lines and working capital, domestic and international documentary business, and a comprehensive suite of payment services. The merger of Nova hrvatska banka with Hrvatska poštanska banka has significantly impacted the Divison's further development, resulting in an increase in the number of clients, portfolio size, and an influx of specialized knowledge and good banking practices within the integrated bank.

The division is dedicated to enhancing financial monitoring services for greenfield investments across sectors such as energy, water, communal services, housing, and tourism. This commitment is rooted in the principle of backing projects of the highest quality that boast solid capitalization and demonstrate a high degree of future cash flow reliability from operations.

Moreover, we take a tailored approach to client engagement, aligning our strategies with their industry affiliations. This leads to further specialization aimed at enriching our overall business relationships with clients. In this process, we meticulously consider the maximum exposure to credit risk for each industry, aligned with the macroeconomic indicators relevant to those sectors.

Our primary focus for client acquisition targets creditworthy entities with existing accounts and established banking relationships elsewhere, including large corporations, and state and local government bodies. The Bank's strategy for customer segmentation is designed to deliver top-quality solutions to new clients while ensuring robust security in risk management. This strategy, which has proven effective in the past, aims to tailor sales and customer relationship management to meet customer needs and expectations precisely.

Through a variety of acquisition strategies, including customer databases, pre-selections, and sales promotions, the Bank aims to attract new clients and strengthen ties with existing ones. The goal is to align the credit process quality, authorization levels for product approvals, and the product offerings to provide highly flexible solutions. Embracing automation and digitalization aligns with global trends and establishes a modern sales infrastructure. Ongoing development efforts serve to enhance the efficiency of business operations for entrepreneurs and fostering strong, long-term relationships.

The Division will persist in its primary objective of broadening business collaborations and extending loans to clients and industries significantly contributing to the growth of Croatia's GDP, particularly in manufacturing, exporting, and energy production sectors. Central to ensuring effective risk management, a tailored approach to each client is mandatory, involving a comprehensive assessment of their financial health, the industry's potential, and the viability of the specific business transactions they undertake. The Division's future activities will be significantly influenced by sustainable development, particularly within the large enterprise segment. The Bank is actively preparing for this by establishing procedures to assess and incorporate environmental, social, and governance (ESG) considerations into its operations.

To secure a leading position in the market, deliver superior service to customers, and enhance revenue, the Division will intensify its collaboration with Croatian Post p.l.c. as a key strategic partner, focusing particularly on expanding its client base within the Local Government and Self-Government Units and their associated entities. The extensive network of Croatian Post p.l.c. presents a substantial opportunity for the Bank to expand its clientele. This potential has already led to an uptick in product and service sales in 2023, predominantly in payment and card services. We anticipate this trend to persist, contributing to an uptick in non-interest revenue in the foreseeable future.

Furthermore, the Bank will continue to evolve its business relationship with FINA, one of its most significant partners in terms of overall payment transactions and the revenue generated from this segment. Efforts to enhance services in cash management will proceed in collaboration with large corporate clients who require cash deposit facilities at their premises.

In the deposit segment, our strategy emphasizes enhancing transactional relationships with major companies and corporations, alongside nurturing ongoing collaborations with governmental and public entities, as well as local administrative units and their subsidiaries. We aim for a strategic equilibrium between managing interest costs and fulfilling our liquidity demands to serve our clients' markets efficiently. Such a strategic stance reinforces our reputation as a dependable partner for corporate clients, reflected in the continuous growth of new fixed and demand deposits.

Our ambition in serving the business sector is to be recognized as a steadfast supporter of our clients, leveraging our expertise to bolster their operational success and ensure the continuous expansion of their profit margins and portfolio stability. These core objectives will steer our future endeavors, affirming Hrvatska poštanska banka's position as a premier banking institution in the marketplace.

SME operations

The SME Business Division is steadfast in its commitment to business efficiency and productivity, deepening the strategic partnership with Croatian Post, embracing digital transformation, enhancing employee skills, and leveraging synergy with all organizational units of the Bank to elevate service quality and support entrepreneurs.

By increasing lending and targeting segments and entrepreneurs that add value to the economy, the SME Business Division aims to contribute significantly to the development of Croatia and its entrepreneurial sector. Recognizing the potential for growth in utilizing EU funds to bolster entrepreneurship and financing export companies – known for their flexibility and dynamism as key innovation drivers in the economy – the Division plans to strengthen lending activities for entrepreneurs.

In pursuit of excellence in market positioning, customer service, and revenue optimization, the SME Business Division will seize opportunities to further collaborate with Croatian Post as a strategic partner. This collaboration will primarily focus on enhancing payment operations and product contracting through Croatian Post's distribution network.

The SME Business Division is committed to continuously improving service quality and will ensure maximum effort towards fully automating existing processes. This approach aims for quicker responses and feedback to clients regarding product and service agreements, thereby enhancing the overall customer experience.

Financial market operations

The transition to the Euro and Croatia's integration into the European Monetary Union have brought about pivotal changes in its banking sector.

This shift has facilitated Croatian banks' access to the European Central Bank's (ECB) monetary policy tools, enhancing their ability to efficiently manage liquidity and portfolio strategies.

The prevailing high liquidity conditions have notably been capitalized on through the strategic placement of overnight deposits with the ECB. Moving forward, banks are set to increasingly harness the full spectrum of the ECB's operational tools, ensuring consistent stability across the unified Eurozone market.

Anticipating 2024, we foresee the persistence of substantial liquidity within the system, with banks persisting in their engagement of overnight deposit placements at the ECB. In light of the ECB's projections and prevailing inflationary indicators, we expect a gradual reduction in reference interest rates during the second half of the year.

The projected conclusion of the ECB's bond-buying program and the anticipated downsizing of its balance sheet are likely to maintain the spreads on bonds of countries significantly represented in the purchase programs at their present levels.

Recent signs of inflation deceleration have prompted a substantial decline in yields in the final months of the previous year. The pace of interest rate reductions will dictate whether the yields on debt instruments will stay at their current rates or have room for further decline.

With Croatia's solid macroeconomic indicators, bond spreads are expected to stay at or above current levels. An improvement in the country's credit rating next year could further decrease spreads.

In the realm of investment banking, the focus will shift towards expanding client networks and introducing new offerings in investment services and custody, aiming to broaden and deepen the sector's market engagement.

Non-financial report for 2023

Sustainable development is a strategic imperative of the Bank, which channels its operations and social projects towards building up the economy, environmental protection, community care and the future worthy of new generations. Our commitment to sustainability is rooted in ethical banking practices, stringent corporate governance, and a mindful approach towards environmental and social responsibilities. The ongoing identification of our societal, environmental, and economic impacts lays the groundwork for our sustainability strategy, guiding our planning, goal-setting, and activities in this domain.

Embracing our role in creating conditions for a better life in Croatia, and adhering to legal and regulatory non-financial reporting requirements, we present an overview of our key initiatives in socially responsible and sustainable business within the 2023 Annual Financial Statements. This includes our efforts towards fulfilling the Sustainable Development Goals (SDGs).

The 2023 report for the HPB Group will be made available on our website, *www.hpb.hr*, by June 2024. The Sustainability Report will be compiled in accordance with international best-practice non-financial reporting framework (Global Reporting Initiative), adopted by the Bank in 2022, to provide consistency and comparable monitoring of relevant environmental, social and governance performance indicators.

This Sustainability Report will cover consolidated figures for the entire HPB Group and is designed following a holistic reporting approach that adheres to both European and national regulatory directives.

Contribution to the achievement of the Global Sustainable Development Goals

In 2023, Hrvatska poštanska banka remained committed to its strategic vision by directing its efforts towards fostering a sustainable future for the community, the environment, and the economy.

Through this summary of our non-financial report, we showcase our social and environmental contributions and activities aligned with the Sustainable Development Goals that we fully endorse and upon which we base our operations. Although we support all 17 global goals, the Bank recognizes its greatest impact in the following segments:

SDG 3 Ensure healthy lives and promote well-being for all at all ages,
SDG 4 Ensure inclusive and high-quality education and promote lifelong learning opportunities for all,
SDG 5 Achieve gender equality and empower all women and girls,
SDG 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all,
SDG 12 Ensure sustainable consumption and production patterns,
SDG 13 Take urgent action to combat climate change and its impacts.

The report below outlines the activities we carried out in 2023, aligned with the global sustainable development goals.

3 GOOD HEALTH AND WELL-BEING

Ensure healthy lives and promote well-being for all at all ages, especially our employees, stands out as a pivotal goal within the framework of sustainable development pursued by HPB Group. Employee health and safety was a priority throughout 2023.

- HPB Group provides all employees with **voluntary and supplementary health insurance**, which include an annual medical examination. All employees are entitled to a day of leave, in order to encourage them to take the annual medical examination.
- In pursuit of renewing the **"Health-Friendly Company"** certification, which the Bank first implemented in 2022, it has sustained its commitment to health promotion and workplace safety. Throughout the year, "Health Polygons" were organized in regional centres including Osijek, Varaždin, Split, and Rijeka. To elevate the level of protection for both employees and bank visitors, the Bank invested in 11 Automatic External Defibrillators (AEDs) and trained 153 staff members in first aid, including the use of AEDs. Additionally, emergency backpacks containing first aid and survival kits were acquired for the bank's network of centres.
- The initiative to foster a healthy lifestyle and enhance the physical activity of our employees continued through **HPB Sport**. We organized a variety of activities aimed at cultivating a culture of sports within the HPB Group, meanwhile embracing corporate values such as solidarity, teamwork, and charity work. A key benefit offered by HPB Sport is the subsidization of individual recreational activities for its members, all in pursuit of promoting and underlining the significance of physical activity.
- Acknowledging the fact that mental health is just as important as physical health, **psychological counselling** is still available to employees. The purpose of such counselling is to empower the employees to successfully cope with challenges by developing new mindsets and tools that support them through change, and thereby increase the quality of life.
- In order to ensure uninterrupted and successful business operations, HPB Group continuously works to enhance the level of security in its operations. In addition to regular systematic activities, employees are required to take compulsory **information security** training. All employees are duly and promptly informed of all current and potential active phishing campaigns, in order to prevent such attacks.
- **Evacuation and rescue drills** continued to be conducted at HPB Group facilities and premises, and efforts are still being taken to improve workplace quality thorough the application of ergonomics and occupational health and safety measures. HPB continued to raise the level of fire protection in 2023 by implementing a fire alarm system, continuously eliminating potential risks that can cause **injuries at work**, improving microclimate conditions and lighting in the workplace, workplace temperature and ventilation.
- Work - life balance of employees is recognized as one of key sustainable development goals because it impacts employee satisfaction and engagement and contributes to a healthy and satisfying work environment. To secure a better work-life balance we promote **flexible working hours**, in cases where work processes allow such organization of work (reduced working hours on Friday, flexible working hours). Furthermore, for positions that accommodate flexible work arrangements, employees have the option to choose between two working models: exclusively from the employer's premises or remote work for up to 12 working days per month.
- To support our employees during significant family milestones, we grant a day off to parents whose children are entering kindergarten or school for the first time, allowing them to participate in these important moments. Reflecting our dedication to the well-being of our staff and their families, we also offer **subsidies for childcare expenses**.
- We provide additional benefits to our employees such as **discounts for sports activities** through Multisport scheme, special schemes for the purchase of office furniture for remote work, discounts in a wide range of stores, airline ticket discounts, employee discounts for certain banking products, occasional cash allowances such as payment for the birth of a child/ adoption, or jubilee awards.
- HPB Group employees are entitled to one day of paid for each **blood donation** they make. All employees are granted this right, irrespective of the scope and the basis of exercising the right to paid leave.
- Additionally, employees are granted **one day of paid leave monthly for volunteering**.
- The Bank consistently carries out an **organization vitality survey** to learn about employee opinions, attitudes and satisfaction. Organization vitality survey is a first step in focused management of organizational climate, corporate culture and employee engagement. The purpose of the survey is to gauge the current state of organizational climate, corporate

culture and employee engagement within HPB Group and define areas and steps for further development. In the context of the merger with Nova hrvatska banka, special attention was dedicated to integrating the two organizational cultures and maintaining a high level of employee engagement. This entailed articulating a clear vision for the desired organizational culture and prioritizing key areas for development.

- The Bank has embraced **Principles for the Protection of Human and Children's Rights** within its Environmental, Social, and Governance (ESG) Management Policy. These principles are grounded in the fundamental conventions of the International Labour Organization, particularly those related to collective bargaining rights, and the prohibition of forced and child labour.
- The Bank's commitment to these values in practice is underscored by its consecutive award of the **'Employer Partner'** Certificate. This recognition positions the Bank as a frontrunner in human resources management, showcasing outstanding practices in attracting and retaining talent, alongside fostering employee satisfaction and engagement.

Quality education and lifelong learning opportunities for all. Mindful of the fact that human capital and expertise make up an integral part of business, HPB Group recognizes continued employee development as one of the key corporate principles. HPB Group empowers employees to develop their talents, innovation and creativity, and to push the boundaries of their professional development.

- We continuously create and develop training programmes and deliver both **internal and external employee training programmes**. In the course of 2023 internal training initiatives were mostly focused on regulatory issues, development of retail sales skills, data skills and management skills. External training programmes encompassed professional training and conferences, and a significant number of trainings initiatives was focused on the development of sales capacities, as well as the development of analytical, communication, and management competencies.
- We believe in good leadership, and we believe that people need to be led, motivated and made successful. We therefore strongly promote leadership training for management levels. The Bank conducts the **Leadership Incubator: First-time Manager** program, aimed at nurturing the growth of employees stepping into a leadership role for the first time, equipping them to face the challenges associated with their new responsibilities.
- In addition to internal and external training programs, employees enhance their knowledge and skills through the **eUčionica** (eClassroom) portal. This platform offers interactive content, including regulatory and mandatory training to support and simplify daily operations. Employees also have access to external platforms for self-paced e-learning.
- **Data nursery** is a unique employee data literacy programme that HPB has rolled out for employees identified by the Management Board as leaders of the development and enhancement of data processes and the improvement of data quality. The programme is designed with the analogy of a plant nursery in mind, in order to promote the transfer of knowledge and application of the learnings in business operations, as well as to bolster internal knowledge sharing and knowledge creation. This allows us to tie employee development with business operations and the organization's strategic goals, and maximizes value added from investment in learning and development. The aim of the programme is to enhance employee data/analytical competencies, raise awareness of the importance of quality data management and data-driven leadership by creating a data centre of excellence.
- HPP runs a comprehensive and continuous onboarding programme **HPB Start**. A specific customized onboarding (development) plan is designed for each new hire, which inconsistently monitored and evaluated in the first six months of employment. HPB Start features a Welcome Day, which includes induction and training od new hires, and is organized every two months. The elements of Welcome Day include induction in the work environment, new employees are given a presentation of HPB Group and corporate values, and they are also informed of their rights and obligations, products and operations of the Bank, and opportunities for personal development and advancement.
- HPB Group continues to emphasize the **importance of financial literacy among the population**. With the goal of advancing financial literacy of customers, especially focusing on younger generations, HPB Group has carried forward its enduring "HPB for Financial Literacy" initiative, implementing a variety of educational programs accessible to both citizens and entrepreneurs, and diligently fostering knowledge development in new generations. In 2023, a key highlight was the partnership with the "Croatia for Children" Foundation, part of their "Already 15" campaign. The Bank contributed to the "Financial Knowledge –

The Road to Prosperity" educational project, offering financial insights to the Foundation's beneficiaries. Moreover, HPB facilitated financial contributions towards the first savings for 100 of their scholars. Enhancing its program, HPB participated in the Toni Milun 2.0 Financial Literacy Conference in Zagreb, Split, Osijek, and Rijeka, where Bank staff delivered well-attended sessions on loans and card services. Engaging in the European Money Week (EMW), celebrating Savings Day, and conducting various educational initiatives throughout the year, we continue to advance activities crucial for the financial futures of diverse generations.

Achieving gender equality at HPB Group is one of our strategic goals. This is a global issue that many organizations worldwide have been tackling. HPB Group has taken systematic efforts to combat every form of workplace inequality, including gender inequality. We are aware that team diversity positively impacts the quality of decision-making and our success. The Bank has successfully promoted a relatively high percentage of women to management levels for a number of years and has been promoting to management diverse people in terms of age, education, knowledge, skills and experience.

- HPB Group is dedicated to creating a work environment accepting and respectful of individual differences. Any form of discrimination is prohibited, with respect to access to any type of professional training and development, upskilling, reskilling, employment terms and conditions, social security, health care, labour rights and the right to membership and activity in employee associations and other organizations. All employees have equal opportunities for professional development, professional growth and development. Discrimination of a person seeking employment and a person who is employed is prohibited, including all direct or indirect discrimination on the basis of gender, race, skin colour, ethnic or social descent, genetic characteristics, language, religion or faith, political or any other opinion, minority group membership, assets, birth, disability, age or sexual orientation.
- HPB Group's **remuneration policy** is anchored in the principle of equal pay for equal work or work of equal value for all employees, irrespective of gender, race, ethnicity, language, religion, political or other beliefs, national or social origin, or any other form of discrimination. As part of its commitment to gender equality and in line with its Remuneration Policy, HPB Group closely monitors gender-related pay gaps. It regularly reports on these findings and recommends corrective measures where needed to eliminate any wage disparities and promote equity in employee remuneration.
- HPB Group's **Code of Ethics** sets out the principles, guidelines and requirements pertaining to ethical business with all persons and entities that HPB Group is in contact with in the course of its operations - customers, employees, community, shareholders, regulatory authorities, contractual partners, competition. This Code encapsulates the core values that HPB Group upholds and advocates. Managing a complex system such as a credit institution requires not only due diligence of a prudent manager, i.e., regulatory and best practice compliance, but it also encompasses agility, timely decision-making and a goal-oriented culture. Therefore, the principles of conduct stipulated in the Code of Ethics guide us to raise the standards in the daily operations at HPB Group. The Code reflects HPB Group's vision, mission, and corporate values—support, responsibility, trust, innovation, and creativity—and is subject to ongoing enhancement. Special focus is placed on ensuring all staff are well-acquainted with and appreciate the ethical norms and values, with regular training sessions conducted, and compliance with these standards diligently monitored.
- Within the framework of its Environmental, Social, and Governance (ESG) Management Policy, the Bank has adopted **Principles of Diversity and Non-Discrimination**. As a signatory of the **Diversity Charter**, the Bank considers respect for diversity as a cornerstone of modern society and a critical element in fostering a positive workplace culture.
- To align with legal requirements, uphold the Bank's stringent ethical standards, and adhere to professional guidelines as detailed in the Code of Ethics and additional internal policies, HPB Group has established an effective reporting system. This system is designed to manage breaches of these standards, including compliance with the Croatian Government's Anti-Corruption Program for companies primarily owned by the state, ensuring that all activities are conducted with the highest level of integrity and transparency. This system facilitates both employees and external stakeholders to report any observed ethical violations or operational irregularities through designated, secure channels. These reports are reviewed and addressed by an appointed **Ethics Commissioner** for ethical breaches and a designated **Officer for Irregularities**. for operational

concerns, demonstrating the Bank's proactive stance on promoting transparency and integrity within and beyond its organizational boundaries.

• HPB Group has established a robust **internal reporting system for irregularities** in accordance with the The Act on the Protection of Persons Reporting Irregularities (Whistleblower Protection Act). This framework ensures that all individuals in the HPB Group's work environment can, without fear of retaliation or adverse effects on their employment or position within the HPB Group, report irregularities or illegal/improper conduct in good faith through designated and secure channels to a specifically appointed Confidential Contact. Furthermore, HPB Invest, as an entity within HPB Group, has developed its own system for internal reporting of irregularities and whistleblower protection. This system is tailored to its size and business model, aiming for the highest degree of alignment with HPB's internal reporting framework.

8 DECENT WORK AND ECONOMIC GROWTH

Promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all is one of the goals of HPB Group.

• In collaboration with other institutions and local self-government units, HPB Group offers to its customers **special credit lines aimed at promoting entrepreneurship**. A special credit line with favourable conditions is provided for financing agriculture and entrepreneurs, and **in cooperation with the Ministry of Veteran Affairs**, we provide loans for Croatian veteran micro and SME enterprises, to enable them to launch their businesses easier and better, and to support them as they grow and develop their businesses.

• In partnership with the **Croatian Audiovisual Centre**, we have established a credit line with tailor-made loan terms to support the funding of audiovisual productions.

• Cooperation with development institutions, primarily with **Croatian Bank for Reconstruction and Development (HBOR) and European Investment Bank (EIB)**, enables HPB to secure more favourable lending conditions for investments that result in stronger innovation, energy efficiency, better environmental protection and overall enhanced business and export competitiveness By offering such credit lines, the Bank ensures portfolio sustainability and facilitates access to financing for special groups of entrepreneurs such as young entrepreneurs, minorities, the elderly, women or the disabled. HPB champions the growth of the Croatian economy through its participation in **HBOR's financing programs.** These initiatives offer favourable financing options for small and medium-sized enterprises, large companies, and the public sector. HPB is one of fifteen commercial banks that had signed the Cooperation Agreements on interest subsidy instruments from the funds of the National Recovery and Resilience Plan (NRRP), in the amount of almost EUR 80 million.

• The European Investment Bank (EIB), the lending arm of the European Union, advances the EU goals by providing long-term project loans, guarantees and advisory services. **In cooperation with EIB**, HPB secured an additional EUR 14 million for financing entrepreneurs. The funds were channelled channelled to favourable loans for maintaining liquidity, safeguarding jobs and investment.

• HPB’s **EU Desk** is a facilitation service, where customers can obtain advisory services related to available financial assistance from EU funds, which mainly pertains to the European Structural and Investment Fund and the National Recovery and Resilience Plan. More specifically, the Desk delivers information to the customers on open and announced tenders for certain sectors and purposes, provides consultancy services on the options of competing in tender bids and on the suitability of projects for application.

• **Home ownership** is a key challenge for everyone, especially for young families. HPB therefore cooperates with counties, cities and local communities to foster initiatives which encourage access to home ownership.

• The final installment of the **APN's** subsidized housing program, which we have been a part of in recent years, was completed last year. Looking forward, we anticipate different, more enduring programs that aim to include a wider segment of the population.

• In 2023, a year marked by high interest rates, our bank responded to the challenge of inflation by offering exceptionally competitive interest rates on savings accounts for retail customers. This initiative, aligned with our dedication to social responsibility, was part of our support for the Croatian Government's strategies to mitigate the economic impact on citizens.

• Our branch network staff actively participates in financial literacy activities. Beyond their **participation in conferences** and professional forums, they contribute to the sustainable development of the communities where they operate by providing financial education to local entities. HPB is driven to positively impact the community development and to preserve the environment. **Donations and sponsorships** are made to foster and reinforce projects of cultural, scientific and social importance.

• Our employees continued to take part in volunteering activities withing the **Volunteer for Croatia** programme, supporting people in need and contributing to environmental protection. In 2023, the volunteer community at HPB saw significant growth, culminating in a total of seven volunteer initiatives involving over 100 employee volunteers. Our "Volunteering for Croatia" project garnered recognition and awards beyond the bank, securing a **Special Acknowledgment** in a highly competitive field for our volunteer efforts. This recognition was awarded to us in the Business Sector category of the 2023 Volunteer Oscars, organized by the Volunteer Centre Zagreb under the auspices of the City of Zagreb and the Ministry of Labour, Pension System, Family, and Social Policy.

• To combat and prevent socially unacceptable behaviours such as corruption, HPB Group introduced an **Anti-Corruption Policy** in 2023. This policy specifies the duties of its organizational units and affiliates, pinpointing critical areas susceptible to corruption and laying down the groundwork for anti-corruption actions consistent with Croatia's anti-corruption acts. Designed to envelop all business operations within HPB and its subsidiaries, the policy serves every organizational units to effectively navigate corruption risks. Its ultimate objective is safeguarding HPB Group's integrity and reputation, thus maintaining its esteemed position among key stakeholders.

• HPB Group maintains a strict **zero-tolerance policy on bribery and corruption**, promoting legal, ethical, professional, and honest interactions across all business engagements. Our commitment extends to providing our employees with a workplace that rigorously adheres to both national and international anti-corruption regulations and standards, ensuring integrity in every aspect of our operations.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Ensure sustainable consumption and production patterns is a strategically important goal for HPB Group. HPB Group has been systematically investing efforts in monitoring energy consumption and has been engaging the employees in training sessions and activities to implement guidelines for energy savings.

• HPB Group strives to achieve **carbon neutrality** and implements measures to reduce greenhouse gas emissions (GHG emissions), including Scope 1, 2 and 3 emissions from either direct or indirect activities. In 2022, the Bank initiated the calculation of Scope 1 and Scope 2 greenhouse gas emissions. Moving forward into 2023, it plans to expand this calculation to encompass relevant Scope 3 emissions categories.

• HPB Group implements Supplier Principles that outline core principles and expectations for suppliers looking to establish and maintain a long-term business relationship with the Bank or its group members. Suppliers are encouraged to preserve natural resources, avoid the use of hazardous materials and reduce, reuse and recycle with the obligation to adhere to HPB Group's ethical principles, while complying with regulatory norms.

• The efficient management of energy consumption is at the forefront of sustainable development, which HPB has opted for. In line with the strategy and directives of the European Union, which define a common framework of measures to promote energy efficiency within the EU, and the Guidelines for energy savings in the Republic of Croatia, the Bank's Management Board adopted the **Guidelines for efficient energy consumption in the workplace**.

• For the past several years, HPB Group's efforts have been focused on reducing the number of printed pages and promoting **responsible paper use**. In order to set an example and to join our customers, who have been increasingly choosing **online communication with the Bank**, HPB Group employees are encouraged to digitally archive documentation and carry out business processes through digital channels to the greatest extent possible. Choosing online communication is more environmentally friendly, faster and a simpler alternative to paper printing.

• To encourage recycling, all HPB Group business premises in the city of Zagreb are equipped with appropriate waste separation containers. For each type of waste, the colour and number of containers is determined in line with the provisions of the the Ordinance on the waste catalogue. The Bank's goal is to install waste separation containers at all sites and facilities. HPB Group continued to responsibly dispose of waste paper at all its premises and facilities, utilizing authorized waste paper removal companies or independently using designated containers.
All electronic waste (old computers, printers, fax machines) are adequately disposed of by companies authorized to dispose of this type of waste. The entire printer system operating at HPB is networked, while the supplier is responsible for the monitoring of toner consumption.

13 CLIMATE ACTION

Take urgent action to combat climate change and its impacts is one of the goals that HPB Group is championing, aware that climate change does not happen in the future but is our reality. HPB has recognized its role in combating climate change and opted for a sustainability-driven operation. The Bank regularly provides training to all employees with the purpose of raising awareness of adverse environmental impacts, the need to pivot to sustainable business and to channel financing towards sustainable projects. HPB Group seeks to further high environmental standards among its customer base and expects its suppliers to reduce their environmental impact.

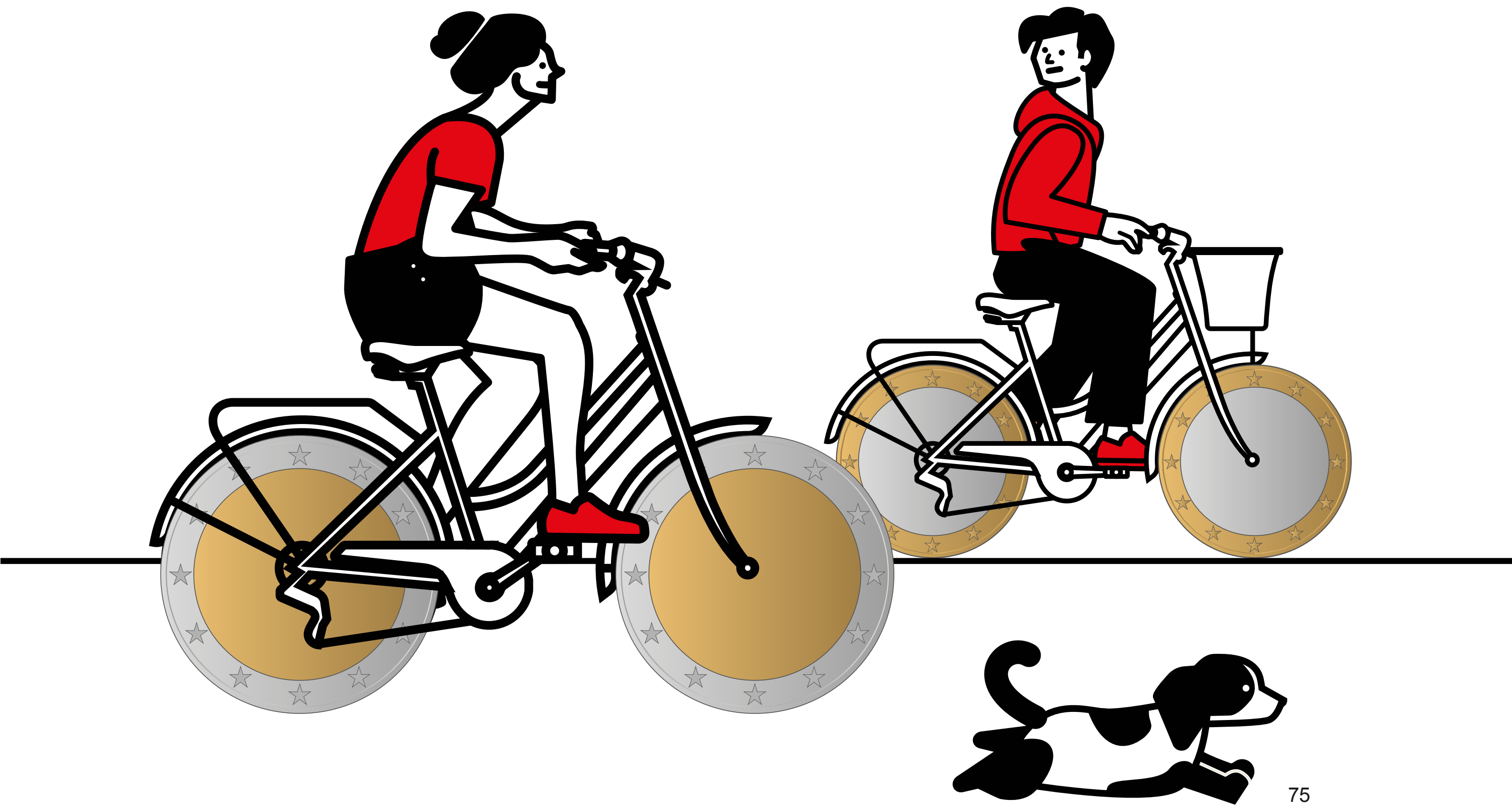
- HPB has been continuously improving its mobile channels and the virtual **e-Branch**, which relies on remote communication with customers, online product and service contracting, digital documentation and qualified digital document signatures. These business practices enhance the availability of products and services to the existing and potential customers of the Bank, while simultaneously making a significant positive impact on the environment. The use of eBranch also reduces the impact of vehicles on the environment, and digital documents and signatures in communication with customers reduce paper volumes. Additionally, eBranch reduces the needs for physical office premises, drives down energy consumption and scales down the resources necessary for the operations.
- HPB opted to **reorient capital flows towards a more sustainable economy** and investments in order to achieve sustainable and inclusive growth, manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues; and foster transparency and long-termism in financial and economic activity.
- In 2023, the Bank established a **Development Framework for Sustainable Products** guided by its Policy on Environmental, Social, and Governance (ESG) Factors. This initiative seeks to steer capital and financial investments towards economic activities that are environmentally sustainable, in line with the European Green Deal and the Paris Agreement objectives. The Bank categorizes products as sustainable if they align with predefined criteria and are tailored to their intended target groups. The Bank is fervently laying the groundwork for the launch and enhancement of such offerings. By providing sustainable products, the Bank plays a pivotal role in fulfilling sustainability objectives, ultimately aiming to boost its Green Asset Ratio (GAR), reflecting its commitment to supporting environmentally sustainable economic growth.
- Through the calculation of the **Green Asset Ratio**, HPB demonstrates the share of its primary banking operations—such as lending, investments, and financing—that are consistent with the taxonomy, in relation to its overall loans and advances, equity holdings, and additional balance sheet assets.
- Working jointly with other financial institutions under the guidance of the Croatian Banking Association (HUB), HPB has developed an **ESG questionnaire** designed to evaluate **environmental, social, and governance impacts**. This initiative aims to collect essential data from clients to gauge their commitment to sustainable and responsible practices, as well as assessing ESG-related risks. Scheduled for rollout in early 2024, this questionnaire will primarily target large corporate clients, specifically those with a workforce exceeding 500 employees by the date of their financial statement.
- In 2023, the Bank undertook significant efforts to integrate environmental considerations into its strategic and operational planning, in line with EU Directives and the expectations of supervisory bodies. This initiative began with a **comprehensive evaluation of the environmental risks** that could influence the Bank's activities. This foundational assessment aimed to inform the Bank's environmental objectives by analyzing the interplay between environmental factors and the Bank's strategic direction, the risks these factors may pose, and pinpointing areas for concentrated sustainability efforts. A crucial step in this process was the identification and assessment of environmental risks and their potential effects on the Bank's broader operational landscape. This critical evaluation underpinned a comprehensive analysis aimed at understanding the **significance** of how **environmental risks** could influence the Bank's credit, market, and operational aspects. The assessment was carried out across various levels of detail, with a focus on utilizing available data to ensure a nuanced understanding of environmental risks and their implications for the Bank's future strategy and risk management practices.
- In November 2023, our bank's volunteers participated in the "Project O2" initiative by Magic Forest, employing **drones for reforesting** inaccessible, deforested, or fire-damaged areas in Vukovar, notably in the "horseshoe" area and the centuries-old Adica Park Forest. Alongside this innovative approach, volunteers also manually planted 100 pedunculate

oak seedlings with students from Vukovar's Blage Zadre Elementary School. This initiative, following the significant eco-voluntary project "Plant with HPB" in preceding years, showcases our enduring dedication to preserving nature and the environment. It underscores the positive impact that collective action can have on rejuvenating and safeguarding our ecosystems.

- In the 2021 Non-Financial Report, the Bank first reported on its impact based on the first two environmental objectives of the Taxonomy Regulation: (1) climate change mitigation, (2) climate change adaptation, and reported on **three taxonomy key performance indicators of impact on climate** change - rational use of paper, electricity and water. Given that in 2021 the Bank did not have an established data collection model on the consumption of electricity and gas in kWh and water in m3 across the business premises and facilities, invoiced costs were used as parameters for determining the KPIs. In 2022, the Bank initiated the **development of a framework for gathering data** necessary for Scope 1 and Scope 2 greenhouse gas emissions, marking the first occasion of such calculations based on the data at hand. Progressing into 2023, efforts were amplified to refine the methodologies and data quality essential for the computation of **GHG emissions across Scopes 1, 2, and 3**. This included extending the calculations to encompass portfolio emissions falling under Category 15 of Scope 3, demonstrating the Bank's ongoing commitment to enhancing its environmental impact assessment and reporting capabilities.

- Taking on the ambitious goals set by European and national legislative and regulatory frameworks to achieve carbon neutrality by 2050, the Bank is preparing a **Climate Strategy for the period up to 2050**, thereby affirming its commitment to transitioning to a low-carbon society. In line with the objectives of the Climate Strategy, which is slated for adoption in the first half of 2024, the Bank will modify the taxonomic KPIs defined in the 2022 Sustainability Report as necessary and announce new targets in the 2023 Sustainability Report.

In 2023, Hrvatska poštanska banka embraced the **international standard for social responsibility, ISO 26000:2020**, integrating it into its corporate practices. This adoption of one of the most esteemed ISO standards ensures that the Bank's activities across various domains—organizational governance, human rights, labour practices, environmental preservation, ethical conduct, consumer relations, and community engagement—are in harmony with the standard's principles. This initiative underscores HPB's commitment and dedication to fostering sustainable values for all stakeholders and enhancing conditions for a better life in Croatia.



Report on Application of the Corporate Governance Code

Application of the Corporate Governance Code

Pursuant to Article 272.p of the Companies Act and Article 22 of the Accounting Act, the Management and Supervisory Boards hereby affirm that as a listed entity on the Zagreb Stock Exchange's regulated market, the Bank is committed to the Corporate Governance Code. This Code, a collaborative effort by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange (ZSE), is accessible on their official websites, *www.zse.hr* and *www.hanfa.hr*.

The Bank prides itself on largely embodying the essence of corporate governance best practices and adhering to the Code's guidelines. Any deviations from specific Code recommendations, attributed to the nuanced legal and regulatory frameworks pertinent to banking institutions, are elaborately articulated in the Bank's yearly Corporate Governance Compliance Questionnaire. This document, ratified by both the Management and Supervisory Boards, is available for public viewing on the websites of the ZSE (*www.zse.hr*), within HANFA's Official Register of Regulated Information (*www.hanfa.hr*), and the Bank's official portal (*www.hpb.hr*).

Moreover, the Bank adheres to the Corporate Governance Code applicable to entities where the Republic of Croatia possesses shares or stakes, enacted by the Croatian Government towards the end of 2017 ("Official Gazette," No. 132/2017). This initiative is geared towards fostering an atmosphere of transparency and operational efficiency, alongside cultivating stronger ties within its operational ecosystem by implementing rigorous anti-corruption standards and mechanisms for managing potential conflicts of interest.

Beyond adhering to these codes, the Bank continuously enhances its corporate governance and business transparency in safeguarding the interests of shareholders, investors, clients, employees, and other stakeholders. This is achieved by considering the Bank's structure and organization, strategy, and business goals, effective oversight of management and board responsibilities, and establishing efficient processes for identifying, measuring, monitoring, and reporting operational risks, along with implementing appropriate internal control mechanisms.

The Bank has established a system of internal controls ensuring effective direct supervision, integrated by procedures and processes for monitoring the Bank's operational effectiveness, financial reporting reliability, and compliance with legal and regulatory standards as well as industry best practices. This system is realized through the parallel operation of three independent functions: risk monitoring, compliance monitoring, and internal auditing. Key features of the internal control system include the independence of control function holders responsible for risk identification, assessment, and management, including risk and compliance controls, while internal audit oversees the Bank and Group's entire operations to evaluate the adequacy of the internal control system.

To mitigate risks in financial reporting, the Bank has established a suitable internal control and risk management system, ensured by clear delineation of responsibilities among organizational units according to internal acts, and effective internal controls integrated into business processes and activities. Additionally, the Bank engaged an external auditor and organized continuous financial oversight in financial reporting and decision-making within this segment. The foundational elements of our approach to internal control and risk management, particularly concerning financial reporting, form a vital part of our operational strategy. These principles are thoroughly documented in the description of the Bank's business activities, as outlined in Note 2 of our financial statements.

Significant Shareholders and Restrictions on Share Rights

The Republic of Croatia holds the position of the principal individual shareholder in the Bank, with a 44.90% stake. Together with Croatian Post Inc., the Croatian Deposit Insurance Agency, the Croatian Pension Insurance Institute, and the NEK Fund, these entities cumulatively possess approximately 77% of the Bank's share capital and voting rights in the General Assembly.

As stipulated by the Bank's Articles of Association, each share entitles the holder to one vote, thus there are no limitations on voting rights nor any constraints on the exercise of these rights.

Shareholders exercise their rights during the Bank's General Assembly, which deliberates on issues defined by the Companies Act and the Bank's Articles of Association. The General Assembly is usually convened by the Management Board but must also be convened upon request by the Supervisory Board or shareholders in accordance with specific provisions of the Companies Act. To participate and vote at the General Assembly, shareholders must either personally or through a proxy register their attendance in advance, no later than six days prior to the General Assembly, and be registered as shareholders on the last day for submitting participation applications for the General Assembly in the Central Depository & Clearing Company Inc.'s depository.

The functioning of the General Assembly is governed by the Companies Act and the Bank's Rules of Procedure of the General Assembly, available on the Bank's website (www.hpb.hr).

Appointment and Dismissal Rules of the Management Board, Amendments to the Articles of Association, and Special Powers of the Management Board

Under the designation as a legal entity of special interest by the Decision on Legal Entities of Special Interest to the Republic of Croatia ("Official Gazette," numbers 147/2021 and 78/2023), the criteria and procedures for electing and appointing members to the Bank's Management Board, including the prerequisites candidates must meet for roles within the Management Board (Chair and members), are governed by the Croatian Government's Regulation regarding the conditions for electing and appointing members to supervisory and management boards of entities of special interest to the Republic of Croatia and the manner of their selection ("Official Gazette," number 12/2019) (Government Regulation).

As stated in the Bank's Articles of Association, the Management Board is comprised of a minimum of two and a maximum of five members, with the Supervisory Board determining the exact number. Members, including the President of the Management Board, are appointed by the Supervisory Board for terms of up to five years, with the possibility of unlimited reappointment.

Besides adhering to the requirements set out in the aforementioned Government Regulation, a candidate for the Management Board must satisfy conditions laid down by the Companies Act, the Credit Institutions Act, and the Decision on the assessment of the suitability of the chairperson of the management board, member of the management board, member of the supervisory board and key function holder in a credit institution ("Official Gazette" numbers 20/2021 and 104/2022), ensuring they have received the Croatian National Bank's prior consent for the appointment.

A member's suitability for the Management Board hinges on their alignment with specified conditions and characteristics that ensure competent, lawful, secure, and stable execution of their duties.

The collective expertise, capabilities, and experience of the Management Board members are essential for the independent and autonomous management of the Bank, particularly in understanding the Bank's operations and significant risks.

Management Board members are obligated to manage the Bank's affairs on a full-time basis and maintain an employment relationship with the Bank.

The Supervisory Board holds the authority to dismiss the President of the Management Board and its members for substantial reasons. Likewise, the President and Members of the Management Board have the right to submit their resignations in writing.

Amendments to the Articles of Association can only be enacted through a General Assembly resolution. Such a resolution is considered passed if it garners the support of three-quarters of the equity holders present at the General Assembly. The Management Board is tasked with drafting the amendment proposal to the Articles of Association and seeking the Supervisory Board's endorsement. With the Supervisory Board's concurrence, the proposal is then presented to the General Assembly for final approval.

At the General Assembly on August 30, 2023, the Bank's Management Board was granted the authority to buy back its own shares from the organized securities market over the period from the date of the Assembly's resolution until the end of 2026. The total capital represented by these acquisitions, combined with any shares the Bank already owns, shall not exceed 1% of the Bank's share capital at the time of acquisition. This General Assembly resolution also allows the Management Board to manage the disposal of these own shares beyond the organized market, aligning with regulatory requisites concerning variable compensation according to the Bank and HPB Group's Remuneration Policy, mindful of all regulatory limitations regarding disposals.

Following this directive from the General Assembly, the Bank initiated an Own Share Buyback Program from November 8, 2023, intended to last two years. The goal is to acquire up to 300 own shares with an allocated budget of up to EUR 65,000 for variable remuneration purposes consistent with the Bank and HPB Group's Remuneration Policy.

Under this Buyback Program, on November 15 and 16, 2023, the Bank acquired a total of 85 own shares through the Zagreb Stock Exchange's regulated market. As the Bank held no treasury shares prior to this operation, it possessed a total of 85 own shares without voting rights, equal to 0.004198% of the Bank's foundational capital, after this acquisition. The total expenditure for acquiring these shares amounted to EUR 15,529.

On December 7, 2023, the Bank released all 85 of its own shares outside the regulated market of the Zagreb Stock Exchange through executed Share Transfer Agreements. Consequently, as of December 31, 2023, the Bank no longer held any of its own shares in its treasury account.

Details of these transactions were duly published in accordance with legal requirements and are available on the Zagreb Stock Exchange website (*www.zse.hr*), HANFA's Official Register of Regulated Information (*www.hanfa.hr*), and the Bank's website (*www.hpb.hr*), ensuring transparency and regulatory compliance.

Supervisory Board - Composition and Role

The selection and appointment process for candidates to the Bank's Supervisory Board, as well as the qualifications required of candidates, are governed by the Regulation of the government on the Conditions for the Selection and Appointment of Members of Supervisory Boards and Management Boards of Legal Entities of Special Interest for the Republic of Croatia and on the manner of their selection ("Official Gazette," No. 12/2019) (Government Regulation).

According to the Bank's Articles of Association, the Supervisory Board is composed of no more than seven members, all of whom are appointed or dismissed by the General Assembly.

Besides adhering to the requirements set out in the aforementioned Government Regulation, a candidate for the Supervisory Board must satisfy conditions laid down by the Companies Act, the Credit Institutions Act, and the Decision on the assessment of the suitability of the chairperson of the management board, member of the management board, member of the supervisory board and key function holder in a credit institution ("Official Gazette" numbers 20/2021 and 104/2022), ensuring they have received the Croatian National Bank's prior consent for the appointment.

The collective expertise, capabilities, and experience of the Supervisory Board members are essential for the independent and autonomous management of the Bank, particularly in understanding the Bank's operations and significant risks.

A member's suitability for the Supervisory Board hinges on their alignment with specified conditions and characteristics that ensure competent, lawful, secure, and stable execution of their duties.

The powers of the Supervisory Board are regulated by the Companies Act, the Credit Institutions Act, the Decision on the management system, and the Bank's Articles of Association.

In the period from January 1 to December 31, 2023, the Bank's Supervisory Board operated with three members:

- Marijana Miličević, M.Sc. in Economics, President
- prof. Ph.D. Mislav Ante Omazić, Deputy President,
- Marijana Vuraić Kudeljan, M.Sc., Member.

These Supervisory Board members were elected at the General Meeting held on May 10, 2021, for a term of four years. Their mandate commenced on August 13, 2021, following the Croatian National Bank's (HNB) prior consent, as required under the Credit Institutions Act.

The members of the Supervisory Board do not hold shares in the Bank.

In the course of 2023, within the incumbent Supervisory Board, the independence requirement was discharged at all times by one member of the Supervisory Board, ensuring the functioning of the Supervisory Board and its committees in compliance with the provisions of applicable statutory regulations.

The Supervisory Board typically convenes quarterly, with additional meetings held as necessary but at least semi-annually. For urgent and significant matters, the Supervisory Board can make decisions without convening a meeting. In such cases, members cast their votes in writing, by telephone, or via email.

In 2023, 14 regular sessions of the Supervisory Board were conducted to discuss the Bank's operational matters. All members attended 11 of these sessions, with justified absences of one member at three sessions.

The record of attendance at the Supervisory Board meetings for the year 2023 is detailed in the table provided below:

Member of the Supervisory Board	Total number of sessions	Attendance at sessions	
		Number of sessions	%
Marijana Miličević	14	13	92.86
Mislav Ante Omazić		14	100.00
Marijana Vuraić Kudeljan		12	85.71

In addition to regular meetings, the Supervisory Board made resolutions on 108 occasions via electronic mail outside the meetings, in situations where individual resolutions required prompt decision-making, the majority of which pertained to the to the Supervisory Board's approval of the Bank's exposure to certain clients pursuant to the statutory framework, as well as other decisions that require the Supervisory Board's approval.

The Supervisory Board and the Committees thereof duly held regular meetings in 2023, and all Members duly attended and participated significantly, continuously collaborated, maintained balanced composition and possessed the necessary expertise in line with the statutory requirements for the operations of credit institutions. Each Member individually contributed to the specific areas of work in a suitable and effective manner, given their role and responsibility, as evidenced by the results of the regular annual suitability assessment of the Members of the Supervisory Board conducted by the Suitability Assessment Committee established within the Bank, in accordance with the statutory regulations applicable to credit institutions. Based on the results of the conducted suitability assessment, it was established that in 2023, both individually and collectively, the composition of the Supervisory Board was balanced with respect to skills, experience, competencies, age, and gender, and that the Members of the Supervisory Board possess high moral standards, diverse knowledge, abilities, as well as professional and practical experience necessary to properly discharge their tasks, while also meeting the specific requirement that at least one Member of the Supervisory Board is an expert in the field of accounting and/or financial statement auditing. The composition of the Supervisory Board and the requisite balance, including a notable representation of women (currently 66.7%), surpasses the targeted level, establishing an appropriate mix. Following an annual suitability assessment, the General Assembly on August 30, 2023, deemed the current composition of the Supervisory Board suitable for fulfilling its member functions.

The Management Board and the Supervisory Board cooperated efficiently and constructively, sharing relevant information necessary for the discharge of their tasks, thereby contributing to the achievement of the supervisory function. The Supervisory Board supervised the Bank's operations, guided business policy, and actively contributed to its execution in accordance with the law, the Bank's Articles of Association, and the Supervisory Board's Operating Procedures, based on reports from the Management Board regarding significant operational and financial conditions. The Supervisory Board was able, at all times, to request and obtain information from the Management Board of the Bank on all matters pertaining to operations of the Bank which significantly impacted or could have impacted the position of the Bank, particularly information pertaining to the risk profile. The Management Board undertook to provide the Supervisory Board with suitable access to the information on the risk profile.

During 2023, as the terms for Marko Badurina, the President of the Management Board, and Anto Mihaljević and Ivan Soldo, as Management Board members, were concluding, the Supervisory Board proactively secured the Management Board's continuous and effective governance by increasing its size from three to five members. Marko Badurina was reaffirmed as the President, with Anto Mihaljević, Ivan Soldo, and Tadija Vrdoljak appointed as members for another four-year period, and Josip Majher for a two-year tenure. These appointments were made after thorough individual and collective evaluations of suitability, receiving the requisite approvals from the Croatian National Bank.

During 2023, the Management Board and Supervisory Board demonstrated effective and transparent collaboration, marked by open dialogues on various matters. Members of the Management Board were present at the Supervisory Board meetings, where they briefed on topics pertinent to their areas of responsibility and furnished the Supervisory Board with any additional clarifications needed. This ensured that all agenda items were comprehensively discussed, facilitating well-informed decisions. As a result, the Supervisory Board regards its collaboration with the Management Board as highly productive.

The Supervisory Board has established the following committees: Audit Committee, Risk Committee, Remuneration Committee, Nominations Committee, and ESG Committee, aimed at making competent judgments on matters within their remit. The Management Board has ensured access to information and data for the effective operation of the Supervisory Board, as well as the availability of relevant professional services, control functions, and, when necessary, advice from external experts in areas under each committee's competence.

Audit Committee

From January 1 to August 26, 2023, the Audit Committee of the Bank was comprised of three members:
- prof. Ph.D. Mislav Ante Omazić, Chair,
- Ph.D. Željko Lovrinčević, Vice-Chair,
- Ivana Radeljak Novaković, Member.

Following the change in the composition of the Audit Committee, in the period from 27 August to 31 December 2023, the Audit Committee operated as follows:
- Ph.D. Željko Lovrinčević, Chair,
- prof. Ph.D. Mislav Ante Omazić, Vice-Chair,
- Ivana Radeljak Novaković, Member.

The Bank's General Assembly, through its resolution on May 10, 2021, included external experts Ms. Radeljak Novaković and Mr. Lovrinčević in the Audit Committee, with the latter meeting the independence criteria set forth by relevant regulations. To meet the statutory minimum of Audit Committee members as mandated by Article 65, Paragraph 3 of the Audit Act ("Official Gazette" No. 127/2017), the Bank’s Supervisory Board on August 13, 2021, nominated Mr. Omazić, an existing independent member of the Supervisory Board, to the Audit Committee. Thus, in its current lineup, two members, Mr. Omazić and Mr. Lovrinčević, discharged the independence requirement in relation to the Bank, thereby ensuring the functioning of the Audit Committee in compliance with the provisions of applicable statutory regulations.

The Audit Committee convened for seven regular meetings in 2023, achieving full attendance across all sessions. The attendance record for the Audit Committee meetings in 2023 is detailed in the table below:

Member of the Audit Committee	Total number of sessions	Attendance at sessions	
		Number of sessions	%
Mislav Ante Omazić	7	7	100.00
Željko Lovrinčević		7	100.00
Ivana Radeljak Novaković		7	100.00

In addition to scheduled meetings, the Audit Committee also made decisions through email correspondence on 15 occasions, necessitated by the urgent nature of certain decisions.

The committee's deliberations spanned areas under its jurisdiction, adhering to the Credit Institutions Act, the Audit Act, the Public Sector Internal Control System Act, and EU Regulation No. 537/2014, ensuring comprehensive oversight and governance.

2023 Audit Committee Report

Throughout 2023, the Bank's Audit Committee operated with three members, undergoing shifts in roles within the committee over the year.

Following mutual agreement among the current members of the Bank's Audit Committee, based on the Audit Committee's Decisions on the election of the Chair and Vice-Chair, from January 1 to August 26, 2023, Mislav Ante Omazić served as the Chair, Željko Lovrinčević as the Vice-Chair, and Ivana Radeljak Novaković as a Member. Changes in roles within the committee occurred from August 27, 2023, to December 31, 2023, with Željko Lovrinčević serving as the Chair, Mislav Ante Omazić as the Vice-Chair, and Ivana Radeljak Novaković continuing as a Member.

The Audit Committee convened seven regular sessions in 2023, addressing and making decisions within its mandated scope and responsibilities as outlined by its founding Decision and Operational Rules. Besides these regular meetings, the committee also made 15 additional decisions via email in situations requiring quick resolutions within its purview.

The committee's responsibilities included aiding the Supervisory Board by ensuring the effectiveness of the internal controls and risk management systems related to financial reporting. In this regard, it supervised the financial reporting process by analyzing and reviewing financial statements on a quarterly and annual basis, monitoring the integrity of the Bank's financial information, and the correctness and consistency of accounting methods used by the Bank, including criteria for consolidating HPB Group's financial statements.

Furthermore, the Audit Committee monitored the external audit of financial statements, keeping track of the progress and outcomes of the external audit plan, and briefed the Supervisory Board on the results of the statutory audit based on detailed discussions and analyses provided by the certified auditor. This included comments on significant audit findings and the management's engagement with auditors.

External auditors attended three of the Audit Committee meetings, facilitating a comprehensive review and discussions on the Bank and HPB Group's financial statements' audit.

Additionally, the Audit Committee executed the selection process for the external auditor, recommending to the Supervisory Board the selection after thoroughly evaluating the auditor's independence, objectivity, engagement terms, and fees.

In fulfilling its oversight role of the internal audit system's efficiency, the Audit Committee reviewed the internal audit's annual plan and periodic reports, focusing on significant matters related to this area.

The Chair of the Audit Committee kept the Supervisory Board informed about the committee's activities, critical issues reviewed, and recommendations made, ensuring the Audit Committee's independence and autonomy were maintained in its operations.

Risk Committee

Throughout 2023, the Risk Committee operated with three members:

- M.Sc. Marijana Vuraić Kudeljan, Chair
- M.Sc. in Economics Marijana Miličević, Member
- prof. Ph.D. Mislav Ante Omazić, Member.

The Risk Committee held eight regular meetings during the year. All members were present at six of these meetings, with one member justifiably absent at two sessions. The attendance at the Risk Committee meetings in 2023 is detailed in the table below:

Member of the Risk Committee	Total number of sessions	Attendance at sessions	
		Number of sessions	%
Marijana Vuraić Kudeljan	8	8	100.00
Marijana Miličević		7	87.50
Mislav Ante Omazić		7	87.50

Besides regular meetings, the Risk Committee also made decisions via email on seven occasions when quick resolutions were required within its jurisdiction.

Discussions at the Risk Committee meetings focused on matters within its scope according to the Law on Credit Institutions and its implementing regulations.

2023 Risk Committee Report

In 2023, operated with three Members, appointed by the Supervisory Board of the Bank. Marijana Vuraić Kudeljan chaired the Risk Committee, with Marijana Miličević and Mislav Ante Omazić as Members.

In 2023, the Risk Committee held 8 regular meetings where it considered and decided on the matters within its scope of competence and responsibility, as regulated by the applicable statutory regulations, the Resolution on the establishment of the Risk Committee and the relevant Rules of Procedure. In addition to the regular meetings, the Risk Committee made decisions outside the meetings via electronic mail on 7 occasions.

In 2023, the Risk Committee supported the Supervisory Board of the Bank in discharging its strategic supervisory duties with respect to the risk management framework and risk appetite in line with the Bank's risk management business strategy, business targets, corporate culture, and values.

Within its scope of duties and responsibilities, the Risk Committee duly considered regular risk management and control reports, analysed the implementation of capital management strategies and all significant risks, in particular liquidity risk, market risks, credit risk, operational risk, and reputation risk, assessing their suitability in relation to the approved risk appetite and risk management strategy.

The Risk Committee approved work plans for the Risk Control Function, Compliance Monitoring Function, and the Anti-Money Laundering and Counter-Terrorist Financing Division for 2023 and reviewed their regular work reports. For meetings dedicated to reviewing annual plans and performance reports, individuals in charge of various control functions, or the designated officer for preventing money laundering, are called upon to share updates and insights.

Remuneration Committee

During 2023, the Remuneration Committee operated with three members:

- M.Sc. in Economics Marijana Miličević, Chair
- M.Sc. Marijana Vuraić Kudeljan, Member
- prof. Ph.D. Mislav Ante Omazić, Member.

The Committee held 9 regular meetings throughout the year, with full attendance from all members. The attendance at the 2023 Remuneration Committee meetings is detailed in the table below:

Member of the Remuneration Committee	Total number of sessions	Attendance at sessions	
		Number of sessions	%
Marijana Miličević	9	9	100.00
Marijana Vuraić Kudeljan		9	100.00
Mislav Ante Omazić		9	100.00

In addition to regular sessions, the Committee made decisions 14 times via email for urgent matters within its competence.

Discussions during these meetings addressed topics relevant to the Committee's mandate as per the Act on Credit Institutions and its implementing regulations.

2023 Remuneration Committee Report

In 2023, the Remuneration Committee operated with three Members, appointed by the Supervisory Board of the Bank. Marijana Miličević chaired the Appointments Committee, with Marijana Vuraić Kudeljan and Mislav Ante Omazić as Members.

In 2023, the Remuneration Committee held 9 regular meetings where it considered and decided on the matters within its scope of competence and responsibility, as regulated by the applicable statutory regulations, the Resolution on the establishment of the Remuneration Committee and the relevant Rules of Procedure. In addition to the regular meetings, the Remuneration Committee made decisions outside the meetings via electronic mail on 14 occasions.

Within its scope of competence, the Remuneration Committee assessed the principles of remuneration and supported the Supervisory Board in the regular consideration and analysis of the general principles of the Remuneration Policy and supervised the implementation of remuneration rules by considering procedures and practices relevant to remuneration at the Bank and HPB Group members, and the compliance of the Remuneration Policy and implementation acts that define performance management.

Over the course of the year, the Committee meticulously evaluated the progress report on the application of the remuneration policy, scrutinized the attainment of goals, key performance indicators (KPIs), benchmark values, and the distribution of KPI weights for the year 2022, as well as their allocation for 2023. Additionally, the Committee pinpointed staff members who significantly influence the risk profile of the HPB Group and deliberated on various suggestions and subjects pertinent to remuneration within the purview of the Supervisory Board.

Nomination Committee

Throughout 2023, the Nominations Committee operated with three members

- M.Sc. in Economics Marijana Miličević, Chair,
- M.Sc. Marijana Vuraić Kudeljan, Member,
- prof. Ph.D. Mislav Ante Omazić, Member.

The Committee convened for four regular meetings with full attendance by all members. The attendance at the 2023 Nomination Committee meetings is detailed in the table below:

Member of the Nomination Committee	Total number of sessions	Attendance at sessions	
		Number of sessions	%
Marijana Miličević	4	4	100.00
Marijana Vuraić Kudeljan		4	100.00
Mislav Ante Omazić		4	100.00

Additionally, decisions were made nine times through email correspondence outside of these meetings, addressing urgent decisions or conclusions within their remit.

Discussions during these meetings addressed topics relevant to the Committee's mandate as per the Act on Credit Institutions and its implementing regulations.

2023 Nomination Committee Report

Appointed by the Supervisory Board, the Nominations Committee's function was carried out by its three designated members. Marijana Miličević chaired the Nomination Committee, with Marijana Vuraić Kudeljan and Mislav Ante Omazić as Members.

In 2023, the Nomination Committee held 4 regular meetings where it considered and decided on the matters within its scope of competence and responsibility, as regulated by the applicable statutory regulations, the Resolution on the establishment of the Nomination Committee and the relevant Rules of Procedure. In addition to the regular meetings, the Appointments Committee made decisions outside the meetings via electronic mail on 9 occasions.

During the course of 2023, the Appointments Committee considered regular annual suitability assessments of the Members of the Supervisory Board, the Members of the Management Board of the Bank, and their collective suitability, as well as the suitability of key function holders at the Bank, in compliance with statutory regulations, subordinate legislation and the Bank's internal acts on suitability assessments. In response to the conclusion of Management Board members' terms within the year, the Committee meticulously evaluated the suitability of prospective members for the Management Board, examining their strategic plans for the upcoming tenure.

To maintain a seamless flow of decision-making and uphold the standards of exemplary corporate governance, the Committee, after detailed consultations with both the President of the Supervisory Board and the President of the Management Board, ratified the appointments of deputies/successors for the Management Board roles, aligning with the Bank's Management Board Succession Plan.

Furthermore, the Committee reviewed and approved updated internal documents defining the target structure of the Supervisory Board members and the criteria and procedures for their suitability assessments, as well as the bank's Internal Diversity Policy for the Management and Supervisory Boards. These endorsed updates and strategic recommendations were subsequently relayed to the Management Board and Supervisory Board, earmarked for presentation and approval at the General Assembly.

ESG Committee

Throughout 2023, the ESG Committee operated with three members:

- prof. Ph.D. Mislav Ante Omazić, Chair,
- M.Sc. in Economics Marijana Miličević, Member,
- M.Sc. M.Sc., Member.

The Committee convened six regular meetings with full attendance. The attendance at the ESG Committee meetings in 2023 is detailed in the table below:

Member of the ESG Committee	Total number of sessions	Attendance at sessions	
		Number of sessions	%
Mislav Ante Omazić	6	6	100.00
Marijana Miličević		6	100.00
Marijana Vuraić Kudeljan		6	100.00

Additionally, it made decisions via email on two occasions to address urgent matters within its purview.

The Committee's discussions focused on managing environmental, social, and governance (ESG) factors and standardizing processes related to implementing ESG risks into business operations in accordance with the overarching corporate governance framework.

2023 ESG Committee Report

Throughout 2023, the ESG Committee, appointed by the Supervisory Board, operated with three members, including Mislav Ante Omazić as Chair, with Marijana Miličević and Marijana Vuraić Kudeljan serving as Members.

Throughout 2023, the ESG Committee convened for six scheduled meetings to evaluate and guide the bank's ESG initiatives and other matters within its scope of competence and responsibility, as regulated by the applicable statutory regulations, the Resolution on the establishment of the ESG Committee and the relevant Rules of Procedure. In addition to the regular meetings, the ESG Committee made decisions outside the meetings via electronic mail on 2 occasions.

Significant milestones achieved in 2023 include: The publication of the HPB Group's inaugural standalone Sustainability Report for the year 2022, crafted in accordance with the standards set by the Global Reporting Initiative (GRI).

The endorsement of a revised Ethical Code

- for the bank, integrating sustainability considerations into our core operations while ensuring compliance with the legal framework governing management practices and employment relations,
- The approval of a comprehensive update to the bank's Environmental, Social, and Governance (ESG) Management Policy, supplemented with annexes that emphasize our commitment to diversity, non-discrimination, and the protection of human and children's rights, alongside establishing guidelines for the development of sustainable financial products,
- The adoption of a new Anti-Corruption Policy, aiming to unify the bank's stance against corruption and meet the compliance requirements for state-owned financial entities, in line with the national Anti-Corruption Program for state-owned enterprises.

Aligned with regulatory expectations for banks to integrate climate and environmental risks into their risk management frameworks, the ESG Committee has endorsed internal policies detailing approaches for the identification and evaluation of both the physical impacts of climate change and the transitional risks linked to shifting towards a low-carbon economy. This effort also encompasses methods for recognizing environmental risks, establishing rules and timelines for their identification, and outlining a comprehensive environmental risk assessment process. The objective is to foster a business decision-making environment that acknowledges the implications of climate change and its ensuing effects.

In alignment with international standards of social responsibility, during the course of 2023, the bank successfully integrated ISO 26000 – "Guidance on Social Responsibility" into its operations. This integration, assessed through an extensive Internal Audit Report, was thoroughly reviewed by the ESG Committee, reinforcing our dedication to social responsibility and sustainable business practices.

Management Board - Composition and Role

In alignment with the corporate governance framework, the powers, duties, and responsibilities of the Bank's Management Board in conducting the Bank's business and representing the Bank are established by the Companies Act, the Credit Institutions Act, the Decision on Management System, the Bank's Articles of Association, and the Management Board's Rules of Procedure.

To address the needs of business processes, the Management Board establishes both standing and ad-hoc committees and commissions. The Bank's standing committees are the Credit Committee, the Assets and Liabilities Management Committee and the Operational Risk Management Committee.

From January 1 to September 12, 2023, the Management Board consisted of three members:

- M.Sc. Marko Badurina, President of the Management Board
- Ivan Soldo, Member of the Management Board
- Anto Mihaljević, Member of the Management Board.

From September 13 to October 12, 2023, the Management Board expanded to four members:

- M.Sc. Marko Badurina, President of the Management Board
- Ivan Soldo, Member of the Management Board
- Anto Mihaljević, Member of the Management Board.
- Ph.D. Tadija Vrdoljak, Member of the Management Board.

From October 13 to December 31, 2023, the Management Board operated with five members:

- M.Sc. Marko Badurina, President of the Management Board
- Ivan Soldo, Member of the Management Board
- Anto Mihaljević, Member of the Management Board.
- Ph.D. Tadija Vrdoljak, Member of the Management Board.
- Josip Majher, Member of the Management Board.

Members of the Management Board do not hold shares of the Bank.

Diversity Policy for members of the Management Board and Supervisory Board members

The Diversity Policy for the members of the Management Board and the Supervisory Board, adopted by the General Assembly of the Bank, aims to establish the necessary standards that ensure diversity and representation of both genders in the management and supervisory functions, namely the Management Board and the Supervisory Board of the Bank.

The average target level of representation for the currently underrepresented gender, women, in the Bank's governing body is set at a minimum of 33.3%, which the Bank aims to achieve over a five-year period from 2021 to 2026. This target has currently been met at the total level of the governing body.

As of the current reporting period, the Supervisory Board composition exemplifies this commitment to diversity, with women holding two out of three seats. This translates to a female representation of 66.7%, surpassing the minimum objective of maintaining at least a 30% female presence in the Supervisory Board.

As of the last reporting date, the Management Board, comprising the Chairman and four members, falls short of meeting the set benchmarks for gender diversity, with female representation at 0%, which does not align with the Bank's ambition to maintain at least 20% female participation in the Management Board over the long term.

In 2023, the compositions of both the Supervisory Board and the Management Board demonstrated a harmonious balance of skills, experience, competencies, and age. The detailed profiles of these members are accessible on the Bank's website (www.hpb.hr), reflecting the Bank's commitment to diversity. This commitment is further underscored by the Croatian National Bank's recognition of the positive outcomes from the suitability assessments conducted on both an individual and a collective basis for the members.

Acknowledging the significance of fostering diversity and preventing discrimination within the workplace and recruitment processes, the Bank boasts a commendably high proportion of women in key management roles (as elaborated in the section on Human Resources Management in Hrvatska poštanska banka). This demonstrates an ongoing commitment to enhancing inclusiveness and ensuring a discrimination-free environment across all levels of Bank management.

Overview of Diversity Policy

Aligned with its Ethical Code, the Bank embraces and honours the intrinsic and cultural diversity among individuals. It guarantees equality for all employees without discrimination based on gender, age, nationality, ethnic background, religion, language, socioeconomic status, or any other distinguishing characteristics. To this end, the Bank's General Assembly introduced a Diversity Policy for the Management Board and Supervisory Board members in 2021, ensuring a non-discriminatory approach in the appointment process for these positions and other significant management roles. The Diversity Charter was endorsed by the Bank at the close of 2022, affiliating it with a worldwide movement dedicated to fostering a more inclusive, equitable, and just society. In addition, the Bank enacted an Environmental, Social, and Governance (ESG) Management Policy, which outlines the bank's commitment to incorporating ESG considerations across the HPB Group's business operations and initiatives. This policy includes explicit principles of diversity and non-discrimination, reflecting the Bank's dedication to upholding these values in its organizational culture and operational ethos.

1. **Equality and Non-Discrimination:** The Bank is committed to ensuring that all employees have access to equal opportunities for their professional advancement. Direct or indirect discrimination against any person seeking employment or employed based on gender, race, skin colour, ethnic or social origin, genetic features, language, religion or beliefs, political or any other opinion, membership of a national minority, property, birth, disability, age, or sexual orientation is forbidden.
2. **Cultivating Diversity in the Workplace:** The Bank is dedicated to fostering a work environment that appreciates and leverages the unique backgrounds and contributions of each team member. The Bank is committed to embracing a workforce from a wide array of backgrounds, championing the inclusion of individuals across all spectrums of gender, sexual orientation, race, ethnicity, religion, disability, age, and beyond.
3. **Promoting Unity and Mutual Respect:** It is imperative for Bank employees to adhere to values that cultivate a culture of inclusivity, security, and respect for diversity. Interactions among colleagues are expected to be conducted with utmost respect, contributing to a harmonious workplace atmosphere.
4. **Enhancing Personal and Professional Growth:** The Bank is dedicated to empowering every employee to cultivate their unique talents, foster innovation, and embrace creativity. It advocates for pushing beyond the limits in both professional growth and personal advancement.
5. **Fostering Diversity, Equality, and Non-discrimination in Governing Bodies:** The Bank actively promotes a culture of equality, diversity, and inclusion within its leadership teams. By adhering to its Diversity Policy, the Bank ensures a balanced representation of genders across its Management and Supervisory Boards, and reinforces these values throughout all levels of managerial roles.
6. **Ensuring a Respectful and Inclusive Work Environment:** The Bank stands firmly against discrimination and harassment in any form. It is actively engaged in initiatives aimed at eradicating such behaviours and elevates the consciousness of its workforce regarding the significance of these principles.
7. **Promoting Broad-Based Diversity Awareness:** The Bank is devoted to fostering an understanding of diversity's value, not only within its team but also among its broader circle of clients, suppliers, and other stakeholders.

Historically, the Bank has maintained a strong presence of women within its key management ranks, along with a diverse array of individuals from different age brackets, educational paths, areas of expertise, and unique professional experiences. Continually applying this approach of gender, age, and professional diversity, the organization has seen a streamlined key management team over time as a result of strategic enhancements. The overarching aim is to realize diversity objectives through fostering an inclusive management culture that encourages career progression for all employees, irrespective of gender.

In its pursuit of equal opportunities for all genders, with regards to employee remuneration and working conditions the Bank places a high emphasis on harmonizing work-life balance, striving to establish a conducive and supportive work environment. The principle is clear: every employee's chance for success is strictly merit-based, hinging on their professional accomplishments and contributions.

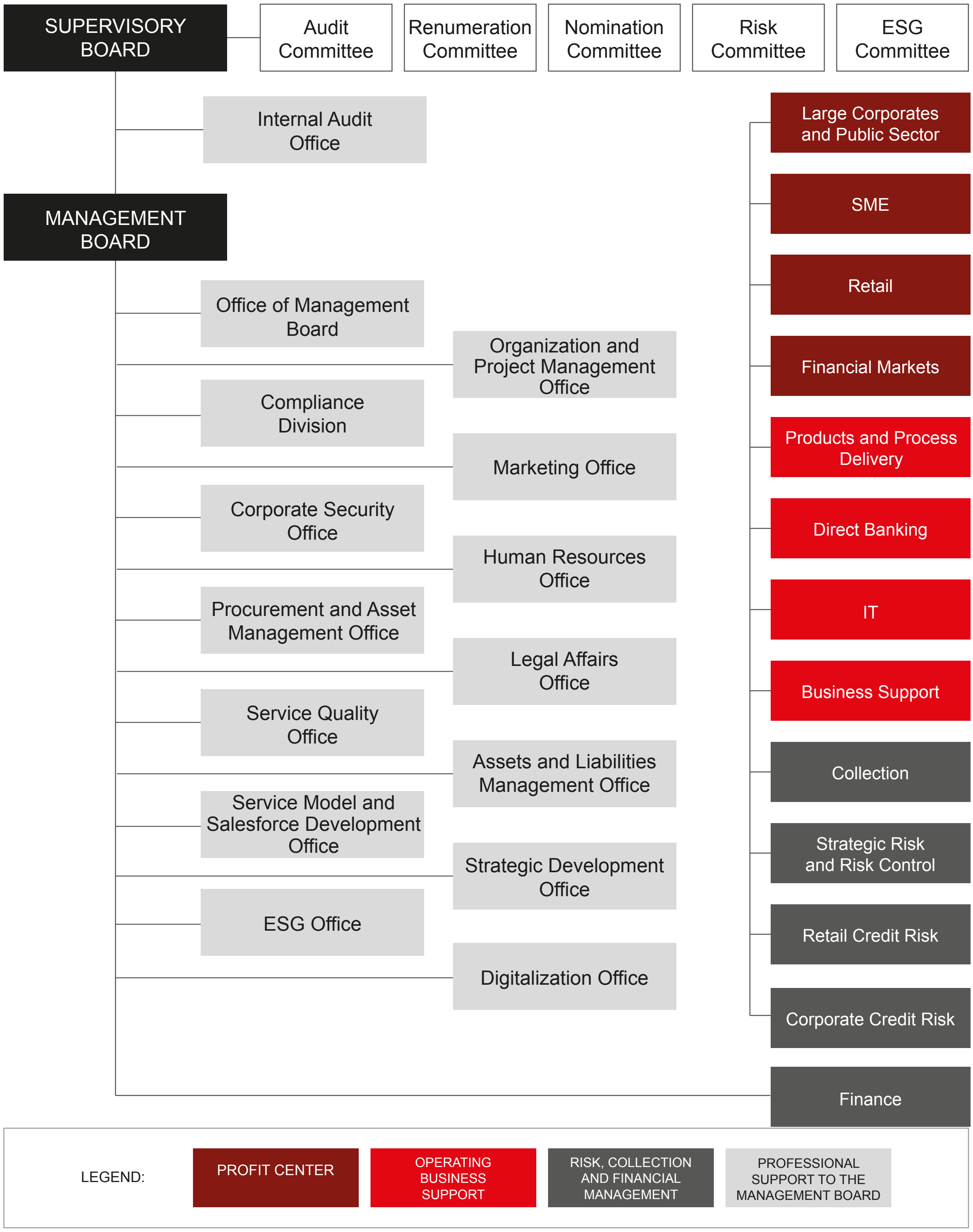
The Bank's key management team exemplifies a harmonious mix of essential knowledge and skills, perfectly poised to address all organizational needs and realize the Bank's strategic aims.

Gender Composition of the Bank's Key Management from 2019 to 2023:

	No. during 2019	Proportion during 2019	No. during 2020	Proportion during 2020	No. during 2021	Proportion during 2021	No. during 2022	Proportion during 2022	No. during 2023	Proportion during 2023
Men	19	47.50%	20	57.15%	17	54.83%	14	53.85%	24	57.14%
Women	21	52.50%	15	42.85%	14	45.17%	12	46.15%	18	42.86%

Hrvatska poštanska banka organizational structure

The Bank's operations are organizationally structured through 28 units - 14 divisions and 14 offices, as outlined below:



The Bank's organizational units are divided into four fundamental business areas:

1. Management Support,
2. Profit Centre,
3. Business Support,
4. Risk Management, Collections, and Finance.

Each business segment functionally and technologically integrates certain organizational units of the Bank to enhance the efficiency of management and organization of the Bank's activities.

1. The Management Support segment involves task groups designed to offer specialized support to the Management Board in reaching business goals and in the governance and administration of the Bank.

Management Support includes the following divisions and offices:

- Internal Audit Office,
- Office of the Management Board,
- Compliance division,
- Organization and Project Management Office,
- Human Resources Office,
- Marketing Office,
- Corporate Security Office,
- Service Quality Office,
- Legal Affairs Office,
- Procurement and Asset Management Office,
- Assets and Liabilities Office,
- Strategic Development Office,
- Service Model and Salesforce Development Office,
- Sustainability Office,
- Digitalization Office.

Internal Audit Office functions as the Bank's unit responsible for evaluating the effectiveness of internal controls, risk management processes, compliance functions, and auditing the IT systems.

Office of the Management Board serves as an organizational unit offering support to the Bank's standing committees and bodies, while also facilitating expert guidance in managing the corporate communications of the Bank and its group entities.

Compliance division is tasked with aligning the Bank's activities with regulatory standards, safeguarding data privacy, administering fraud prevention efforts, and executing protocols for anti-money laundering and combating the financing of terrorism.

Organization and Project Management Office is tasked with analyzing and enhancing the Bank's organizational structure and business processes, alongside managing various projects.

Human Resources Office is charged with recruitment, employee development, fostering employee growth and organizational capabilities, shaping and applying performance management and remuneration policies, managing employment relations, and overseeing the rights and obligations emanating from employment contracts.

Marketing Office is responsible for crafting and executing marketing and promotional strategies for the Bank.

Corporate Security Office ensures the security of the Bank's information infrastructure, as well as the safety of its personnel and assets.

Service Quality Office focuses on enhancing customer service quality by conducting regular satisfaction surveys and research, aiming to suggest service improvements based on feedback.

Legal Affairs Office offers comprehensive legal support across all organizational units within the Bank.

Procurement and Asset Management Office oversees the procurement of goods and services, handles general and record-keeping affairs, manages the Bank's ongoing and investment maintenance, and controls assets acquired in lieu of unpaid claims.

Assets and Liabilities Office is tasked with balancing the Bank's assets and liabilities, managing currency exposures, market risks, and liquidity risks.

Strategic Development Office is charged with steering the Bank and the HPB Group's business development, overseeing the strategic planning process, and ensuring the strategic objectives are effectively met.

Service Model and Salesforce Development Office supports the enhancement and development of the Bank's service delivery model and sales team, focusing on improving interactions and transactions with individuals and SMEs.

Sustainability Office is dedicated to integrating environmental, social, and governance (ESG) considerations into the Bank's business practices, aiming to align operations with sustainable development goals.

Digitalization Office is responsible for formulating and implementing the Bank's digital strategy, driving the digital transformation efforts to modernize and enhance banking operations and customer experiences.

2. Profit Centre encompasses interconnected task groups structured into organizational divisions where all of the Bank's products and services are sold.

This area includes:

- Retail Division,
- SME Division,
- Large Corporates and Public Sector Division,
- Financial Markets Division.

Retail Division operates as a key organizational unit within the Bank, dedicated to offering a comprehensive suite of banking and financial services to individual clients. It oversees the coordination of regional consumer centres and integrates the services of both Bank and Croatian Post d.d. (HP) as pivotal distribution networks. This division is also responsible for centrally overseeing all collaborative operations with HP, ensuring seamless service delivery and maximizing customer reach.

SME Division forms strategic business relationships with the Bank's SME clients, conducting its operations on the foundation of market-driven principles. This division focuses on tailoring banking and financial solutions to meet the unique needs of small and medium-sized businesses.

Large Corporates and Public Sector Division is a key organizational unit of the Bank dedicated to developing and maintaining business relationships with clients in the realms of large corporations and the public sector. This division operates under market-based principles, ensuring tailored banking and financial services that align with the specific needs and challenges of larger enterprises and governmental entities.

Financial Markets Division acts as a vital segment of the Bank, dedicated to the trading of financial instruments under the Bank's umbrella, ensuring liquidity and the bank's currency management. This division also provides a suite of investment services and performs investment activities and related ancillary services, both for and on behalf of the Bank's clientele, within the framework of the Bank's operational spectrum.

3. Business Support area integrates a series of task groups structured into organizational units dedicated to facilitating the sales of products and services as well as bolstering the Bank's comprehensive operational framework.

Business Support area comprises:
- Product and Delivery Process Division,
- Direct Banking Division,
- Business Support Division,
- IT Division.

Product and Delivery Process Division is tasked with optimizing processes, products, and services to align with customer requirements and achieve the Bank's business and sales objectives.

Direct Banking Division oversees the seamless functionality and expansion of all direct banking channels, including WEB, mBanking and eBanking, to distribute the Bank's and its group's products and services. This division also manages card-related operations, such as ATMs and POS systems.

Business Support Division delivers essential operational backing to the revenue-generating sections of the Bank, overseeing both domestic and foreign payment processing. Additionally, this division is tasked with cash management and ensuring the Bank and Croatian Post (HP) branches are adequately stocked with cash for daily transactions.

IT Division provides comprehensive IT support across all segments of the Bank, ensuring robust, secure, and efficient technological infrastructure and services.

4. Risk Management, Collections, and Finance area integrates task clusters within organizational units dedicated to overseeing risk management, collection of the Bank's receivables, and steering financial operations.

This area includes:
- Retail Credit Risk Management Division,
- Corporate Credit Risk Management Division,
- Strategic Risk Management and Risk Control Division
- Collection Division,
- Finance Division.

Retail Credit Risk Management Division serves as a key organizational unit within the Bank, specializing in the risk assessment function. It oversees the evaluation of individual clients' creditworthiness and integrates credit risk evaluations into the consumer lending approval process.

Corporate Credit Risk Management Division functions as an essential organizational unit of the Bank, dedicated to the risk assessment function. It manages the assessment of corporate clients' creditworthiness and integrates credit risk evaluations into the business lending approval process.

Strategic Risk Management and Risk Control Division functions as a key organizational unit of the Bank, tasked with overseeing strategic risks. This division is charged with the comprehensive analysis and management of various risk types that currently affect or could potentially impact the Bank's operations. Its core objective is to minimize exposure to diverse risks, thereby bolstering the Bank's operational stability and effectiveness.

Collection Division operates as a vital section within the Bank, responsible for overseeing debt restructuring initiatives as well as initiating and managing early and forced collection processes.

Finance Division functions as a key unit within the Bank, managing its accounting framework, executing mandatory reporting duties, financial oversight, and the enhancement of the Bank’s management reporting system.

Human Resources Strategy

In 2023, the Bank steadfastly pursued the enhancement of its human resources practices, aligning them with its strategic objectives and the core values that define its corporate culture.

Marking a pivotal development in 2023, the merger of Nova hrvatska banka significantly expanded our workforce, enriching our organization with approximately 25% more staff. This expansion not only brought a surge of fresh talent and expertise but also introduced a wealth of diverse viewpoints and skills. Key to the success of this integration was a comprehensive onboarding program for newcomers, featuring a Welcome Day, targeted internal training sessions for smooth role transitions, and managerial support resources aimed at navigating the complexities of change during and subsequent to the merger. These initiatives were part of a broader, deliberate effort to fuse and refine the organizational cultures of the two banks, focusing on crafting a unified corporate culture and prioritizing shifts towards the envisioned cultural paradigm.

The Bank's strategic evolution and growth are underpinned by the recruitment of specialized talent and the ongoing enhancement of our existing team's skills, ensuring we are well-positioned to address the evolving demands of the market and our clientele. We are committed to fostering career advancement within our ranks, leveraging internal postings and promotion opportunities to motivate and retain our workforce. Our dedication to nurturing our staff's potential is exemplified by the adoption of the Knowledge Nursery framework and the amplified use of cutting-edge digital learning environments. The Data Nursery initiative further underscores our focus on refining data analysis skills, promoting self-directed learning, and the practical application of newfound abilities in the workplace. Additionally, the launch of the Leadership Incubator: First-time Manager program, represents a targeted investment in the professional growth of employees stepping into managerial roles for the first time, equipping them with the tools and insights needed to navigate the complexities and responsibilities inherent in leadership positions.

In 2023, the Bank launched an inaugural program aimed at co-financing educational pursuits, marking a strategic investment in the enhancement of our employees' skill sets to bolster overall business performance. This initiative was designed to make further education more accessible to our staff and ensure a fair and transparent process for the distribution of educational funding. Through this innovative scheme, we successfully provided 11 of our team members with financial assistance towards their educational endeavors, empowering them to advance their professional development and contribute more effectively to our collective success.

To enhance the Bank's appeal as a top employer and streamline the recruitment process for IT professionals, a strategic plan for employer branding initiatives is being crafted and executed. Throughout 2023, the emphasis has been placed on appealing to potential candidates interested in the IT and retail sectors, coupled with a strengthened partnership with academic institutions and student groups.

To elevate the organizational atmosphere, foster a vibrant culture, and boost engagement levels, the Bank undertook a comprehensive initiative aimed at assessing and enhancing organizational vitality. This initiative involved extensive research, the insights from which were shared with the entire workforce at the year's conclusion. The research outcomes highlighted notable improvements in organizational health, particularly in facets such as employee satisfaction with compensation structures, the quality of interactions with direct supervisors, opportunities for career advancement and skill development, and the overall impression of the leadership's effectiveness. In the upcoming year, the focus will shift towards identifying and implementing targeted strategies for continuous improvement, ensuring these enhancements are applied both throughout the Bank as a whole and within individual divisions and departments.

The Bank has made significant advancements in refining and digitalizing its human resources management processes. With the rollout of a cutting-edge human resource management information system at the start of 2023, we have taken a significant leap forward in streamlining our HR operations. This enhancement, particularly with a targeted emphasis on training line managers, serves to reinforce a results-driven ethos and cultivate a culture of high performance and excellence within the organization.

The Bank diligently maintains its competitive edge and employee engagement levels by periodically reassessing its compensation and remuneration policy, clearly established regulations, and salary adjustment intervals. This commitment is further bolstered by effective partnerships with labour representatives and substantial investments in enhancing the financial benefits and rights of its workforce. Such strategic measures are instrumental in preserving the Bank's status as a preferred employer and sustaining a highly motivated staff, even amidst the complexities of fluctuating market dynamics.

The Bank upholds a responsible and financially prudent approach to workforce management through systematic monthly reports to its executive team on crucial HR metrics. These reports encompass a comprehensive overview of vital statistics, including the total workforce expenditure, the aggregate number of staff members, rates of voluntary and involuntary departures, frequency of absences, and other pertinent data.

To streamline the implementation of organizational changes and the corresponding adjustments to employment contracts and compensation structures, the Bank has introduced a well-defined process. This structured approach simplifies the submission of proposals and the enactment of changes, ensuring a smooth transition for all parties involved.

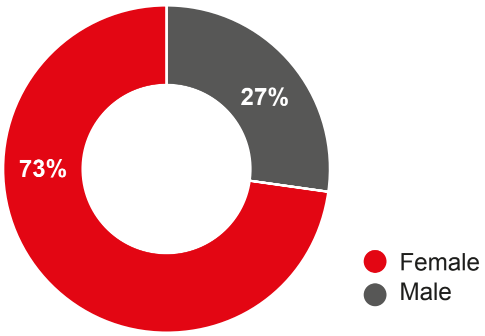
In 2023, the Bank one more proudly received the "Employer Partner" certification, a testament to its exemplary achievements in attracting and recruiting talent, as well as in managing employee satisfaction and engagement. This recognition underscores the Bank's commitment to excellence in human resources management and its ongoing efforts to innovate and improve its HR practices.

Overview of Employee Trends in the Bank from 2019 – 2023

No. of employees	31 Dec 2019	31 Dec 2020	31 Dec 2021	31 Dec 2022	31 Dec 2023
Number based on working hours	1,063	1,275	1,279	1.293	1,561
Number at the end of the period	1,252	1,301	1,289	1,321	1,727

All positions in the Bank are located in the Republic of Croatia.

Gender Distribution of Employees at Hrvatska poštanska banka as of 31 December 2023:



Qualification Structure of Employees in the Bank from 2019 – 2023

The qualification structure is predominantly composed of employees with a higher education degree, corresponding to the complexity of their jobs and positions.

Qualification	31 Dec 2019	31 Dec 2020	31 Dec 2021	31 Dec 2022	31 Dec 2023
Master of Science/ Doctor of Science	19	27	45	63	40
University degree	539	566	550	534	736
Higher education	203	210	211	235	295
Secondary school diploma	490	497	482	488	653
Vocational training	1	1	1	1	3
Total	1,252	1,301	1,289	1,321	1,727

Overview of Employee Tenure at Hrvatska poštanska banka as of 31 December 2023:

Subsidiary Operations Overview

HPB Invest Ltd.

HPB Invest Ltd. (subsequently "the Company") was founded to specialize in the establishment and management of UCITS (Undertakings for Collective Investment in Transferable Securities) funds. By the close of 2023, on December 31, HPB Invest was overseeing six open-ended mutual funds available for public investment, including the HPB Short-Term Bond Fund, HPB Short-Term Euro Bond Fund, HPB Bond Fund, HPB Bond Plus Fund, HPB Global Fund, and HPB Equity Fund.

As for the fiscal period ending December 31, 2023, the collective assets managed across these publicly offered investment funds reached a total of EUR 44.2 million, a decrease from the previous year's total of EUR 78.0 million. The year observed an average asset holding of EUR 48.3 million based on monthly closing figures, which represents a significant drop from the EUR 104.0 million recorded in the preceding year.

Following a particularly challenging 2022, the year 2023 witnessed a notable stabilization in market conditions, with all asset categories generally achieving positive yields. This turnaround was largely attributed to a global deceleration in inflation rates, prompting investors to expect a gradual decrease in central bank interest rates. This expectation contributed to a surge in bond market values and bolstered positive forecasts for corporate performance, propelled by the encouraging climate of low-interest rates, which in turn spurred growth in stock market valuations. This series of events had a uniformly beneficial impact on fund returns. However, it's worth mentioning that despite these gains, the early-year asset withdrawals were not fully offset, leading to a year-end total fund asset value markedly below its starting level. Notably, the mid-year cessation of these outflows stabilized fund assets towards the year's end, ensuring a more consistent asset base moving forward.

Despite experiencing a notable decrease in assets, primarily from early-year withdrawals, the Company successfully navigated these challenges without impacting its ability to fulfil investor redemptions. This resilience underscores the firm's commitment to meticulous and effective liquidity management within its funds, highlighting its robust financial management and investor-first approach.

As of December 31, 2023, the net assets of the managed funds are as follows:

Fund	Assets under management EUR '000	Annual Yield as of 31 Dec 2023
HPB Equity Fund	4,385	20.83%
HPB Global Fund	12,601	20.42%
HPB Short-Term Bond Fund	5,694	(0.81%)
HPB Bond Fund	13,195	6.97%
HPB Short-Term Euro Bond Fund	2,541	0.32%
HPB Bond Plus Fund	5,808	7.61%
Total	44,224	-

Among all UCITS funds registered in the Republic of Croatia, the HPB Bond Fund and the HPB Global Fund stand out for having the highest returns in their respective categories, bond and mixed funds.

As of December 31, 2023, HPB Invest's market share has adjusted to 1.93%, marking a change from the 3.72% recorded at the conclusion of the previous year.

Closing the year 2023, the Company's workforce comprised 11 employees.

Development Strategy

HPB Invest Ltd., dedicated to managing UCITS funds, will persist in its dedication to expert asset management and delivering high-quality service. This commitment aims to safeguard and foster the sustainable appreciation of our clients' financial assets. By consistently investing in the company's development strategy, which entails ongoing enhancements in professionalism, staff, organizational structure, and technology, along with adhering to rigorous legal and regulatory compliance standards, HPB Invest Ltd. aspires to provide a compelling portfolio of funds and investment solutions over the long term. These offerings, characterized by skilled management and satisfactory yields, are designed to fulfil the diverse requirements of investors, tailored to their specific investment objectives, timeframes, and risk tolerances.

Risk Management Overview

The Company diligently tracks and assesses several key risks: credit risk, liquidity risk, operational risk, conflict of interest risk, and reputational risk. Together, these risks delineate the comprehensive risk landscape of the Company.

Adhering to a cautious asset management strategy, the Company solely invests in vehicles deemed conservative, such as bank deposits, debt securities, money market instruments, and cash funds. This strategy positions the Company's risk stance as low, classified as level 1.

As of the reporting date, the Company has maintained a stance clear of significant market or liquidity risks. Its foremost exposure to credit risk at the time of the financial statement is linked to the fair value of instruments, with the day's positive valuation directly mirrored in the financial status report.

The Company encounters operational risk as an inherent aspect of its day-to-day activities. To effectively manage this risk, it implements a structured approach by providing quarterly updates to the Company's Management on incidents that qualify as operational risks.

Key operational risks that have the potential to impact the Company's regular operations include the possibility of a decrease in assets under management resulting from client withdrawals, as well as a diminution in asset values.

To mitigate these risks and enhance its operational integrity, the Company heavily invests in a robust internal control system. This system is pivotal in ensuring operational effectiveness, adherence to legal and regulatory standards, and the timely recognition and mitigation of risks facing the Company.

HPB-nekretnine Ltd.

HPB-nekretnine Ltd. (hereafter referred to as "the Company") is a firm specialized in real estate operations, established in August 2005, and is wholly owned by HPB plc. The Company's share capital amounts to EUR 631,866.75, which has been paid in full.

The core activities of the Company encompass (1) real estate valuation and associated engineering tasks such as financial oversight, (2) real estate transaction consulting and mediation services, (3) provision of energy certification, and (4) real estate management and operation. management and operations.

As of December 31, 2023, HPB-nekretnine Ltd. assets stood at EUR 898,000, with a net profit for the year recorded at EUR 15,000. By the year's end, the Company's team consisted of 14 employees.

Development Strategy

In the next phase, the emphasis will be placed on elevating operational efficiency and the caliber of client services at Hrvatska poštanska banka plc., with a particular focus on expanding our service offerings in the analysis of energy and environmental impacts of projects/properties. By advancing the digital transformation of the Company, we aim to enhance both the efficiency and the transparency of our operations, thereby improving the productivity of our employees and the overall effectiveness of the Company. Furthermore, by adopting a proactive approach towards external clientele, we are committed to incrementally increasing the contribution of external clients to the Company's overall revenue stream.

Risk Management Overview

The principal financial risks faced by the Company are market risk and liquidity risk. Market risk arises from the unpredictable demand for the Company’s specialized services, influenced by real estate market volatility due to factors such as inflation, rising costs of energy, increasing interest rates on bank loans, and adverse global political conditions. This encompasses challenges related to lessees’ payment defaults and potential declines in demand for property valuation services, inherently linked to liquidity risk given the significant service component in the Company’s offerings. The Company adheres to risk management practices defined by Hrvatska poštanska banka plc. to navigate these uncertainties.

Additionally, the Company’s investment in part of a commercial property in Vinkovci, comprising various office spaces, introduces an operational risk. This investment entails an ownership share of 267/900 in a commercial building spanning approximately 10,000 m2, which is in a deteriorated condition. To mitigate this risk and optimize asset utilization, the Company regularly initiates public tenders for leasing and selling these office spaces, aiming to maximize the commercial use of its property holdings.

Statement of Management's Responsibilities for the Preparation and Approval of the Annual Financial Statements

The Management team is tasked with the preparation of both consolidated and standalone financial statements for Hrvatska poštanska banka, public limited company ("the Bank"),for each fiscal year. These documents must accurately and impartially reflect the financial condition, operational results, and cash flow activities of both the Group and the Bank, aligning with the relevant accounting standards. Additionally, Management is charged with upholding precise accounting records that are essential for the crafting of these financial statements at any given moment. Beyond the financial reports, Management bears the responsibility for the comprehensive annual report of the Group, including financial statement formats structured according to the Decision on the structure and content of annual financial statements of credit institutions (Official Gazette issues 42/18, 122/20, 119/21, and 108/22) detailed in the appendix. It falls upon Management to implement all necessary actions to safeguard the Bank's and Group's assets and to institute measures for the prevention and detection of fraud and other irregularities.

Management holds the duty of choosing appropriate accounting policies that adhere to the relevant accounting standards and ensuring their uniform application. It is also their responsibility to make sound and cautious judgements and estimations, and to draft the financial statements on a going concern basis, except when it becomes untenable to presume the Bank's ongoing operations.

Furthermore, Management must present the Annual Report, encompassing the annual financial statements, to the Supervisory Board for its consent. Upon receiving approval from the Supervisory Board, the financial statements gain the joint ratification of both the Management and the Supervisory Board, solidifying their endorsement and implementation.

Management bears the obligation to compile and structure the annual report in line with the provisions of the Accounting Act (Official Gazette numbers 78/15, 134/15, 120/16, 116/18, 42/20, 47/20, 114/22, 82/23). This includes ensuring the report's accuracy, completeness, and compliance with legal requirements.

The accompanying consolidated and standalone financial statements, alongside the Forms crafted following the Croatian National Bank's guidelines on the format and substance of annual financial reports for banking institutions (Official Gazette 42/18, 122/20, 119/21, and 108/22), have received the endorsement of the Bank's Management as of March 28, 2024. Subsequently, these documents have been forwarded to the Supervisory Board for its review and approval.

As a formal acknowledgment, the financial statements have been officially endorsed by designated signatories, as outlined below:
Signed on behalf of Hrvatska poštanska banka plc.:

Marko Badurina
President of the Management Board

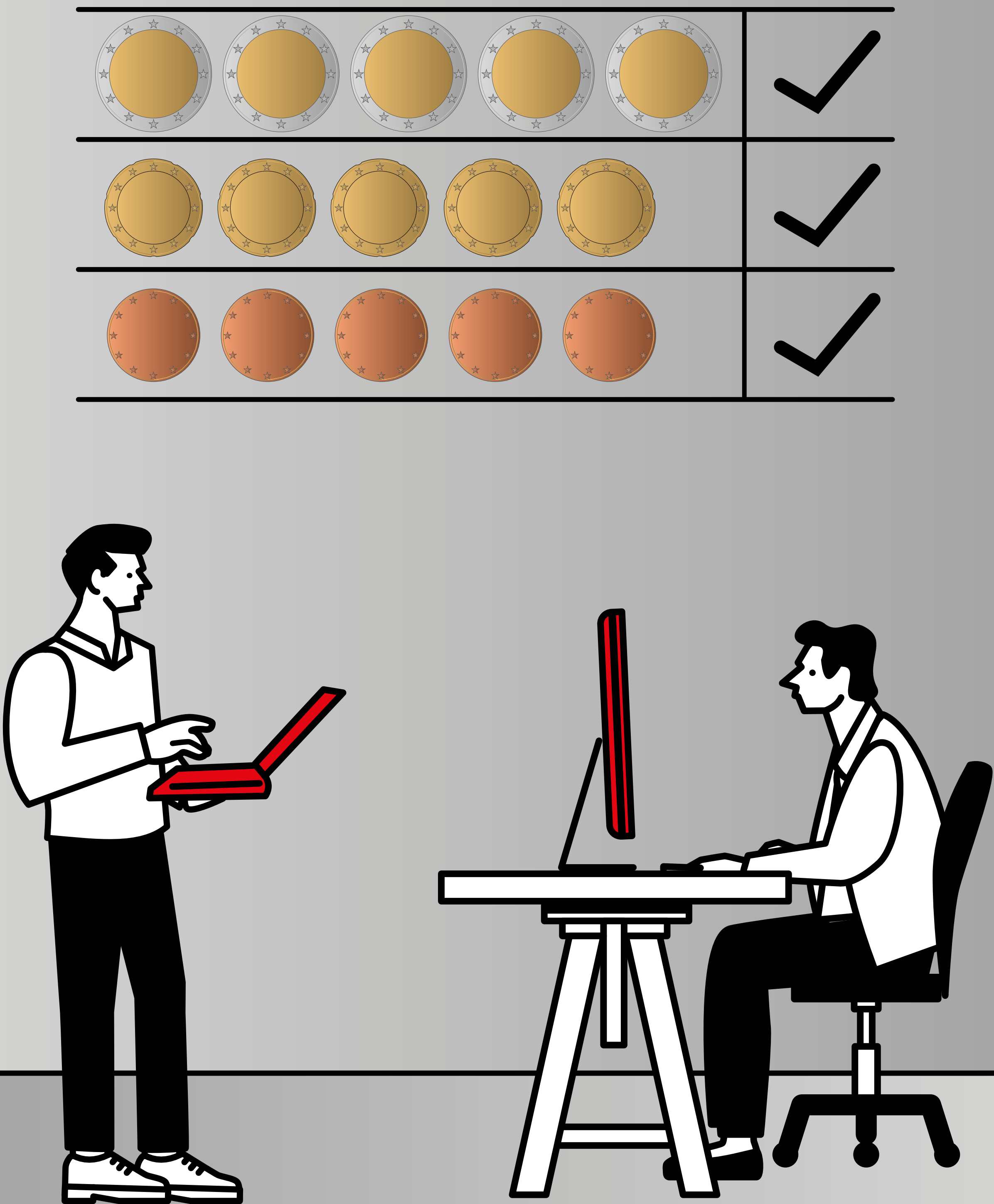
Tadija Vrdoljak
Member of the Management Board

Ivan Soldo
Member of the Management Board

Anto Mihaljević
Member of the Management Board

Josip Majher
Member of the Management Board

Independent Auditor’s Report



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E-mail: bdo-croatia@bdo.hr

BDO Croatia d.o.o.
10000 Zagreb
Radnička cesta 180

Independent Auditor’s Report

To the shareholders of Hrvatska poštanska banka d.d., Zagreb

Audit report on the separate and consolidated annual financial statements

Opinion

We have audited the separate annual financial statements of Hrvatska poštanska banka d.d., (“the Bank”) and the consolidated annual financial statements of the Bank and its subsidiaries (“the Group”), which include the separate and consolidated statements of financial position of the Bank and the Group as at 31 December 2023, separate and consolidated income statements and other comprehensive income, the separate and consolidated statements of cash flows and the separate and consolidated statements of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual financial statements presents a true and fair view of the financial position of the Bank and the Group as at 31 December 2023, and of their respective financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Commission and published in the official paper of the European Union (“EU IFRS”).

Basis for Opinion

We performed the audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the annual financial statements section of our Independent Auditor’s report. We are independent of the Bank and the Group in accordance with the Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with 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 which were, in our professional judgment, of the utmost importance for our audit of the separate and consolidated annual financial statements of the current period and include most significant recognized risks of significant misstatement as a result of error or fraud with the greatest impact on our audit strategy, the allocation of our available resources and the time spent by the engaged audit team. We have dealt with these matters in the context of our audit of the separate and consolidated annual financial statements as a whole and in forming our opinion about them, and we do not give a separate opinion on these matters.

We have determined that the following matter was key audit matter and should be published in our Independent Auditor's report.

Key audit matters (continued)

Impairment of loans and advances to customers	
As at 31 December 2023, in the consolidated financial statements gross loans and advances to customers amounted to EUR 3,151 million, related impairment provision of EUR 241 million and impairment loss recognized in the income statement of EUR 5.4 million (31 December 2022: gross loans and advances: EUR 3,329 million, impairment provision: EUR 268 million, impairment loss recognized in the income statement: EUR 23 million). As at 31 December 2023, in the separate financial statements gross loans and advances to customers amounted to EUR 3,151 million, impairment provision of EUR 241 million and impairment loss recognized in the income statement of EUR 5.5 million (31 December 2022: gross loans and advances: EUR 2,312 million, impairment provision: EUR 205 million, impairment loss recognized in the income statement: EUR 1,6 million).	
Key audit matter	**How we addressed the key audit matter**
We focused on this area due to the significance of the amounts involved in the separate and consolidated financial statements and also because of the nature of the judgements and assumptions that the management is required to make. Impairment provision represents management's best estimate of risk of default and the expected credit losses within the loans and advances at the reporting date. Management makes judgments about the future and various items in the separate and consolidated financial statements are subject to estimation uncertainty. The estimates required for credit loss allowances for loans and advances to customer represent significant estimates. The key areas of judgement associated with credit loss adjustments for loans and advances to customers are the identification of loans that are deteriorating, the assessment of significant increase in credit risk, forecasts of future cash flows as well as expected proceeds from the realization of collateral and the determination of the expected credit losses of loans and advances to customer which are all inherently uncertain. The impairment provision is measured as either 12-month expected credit loss or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition.	In order to address the risks associated with impairment provision for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our opinion. Our audit procedures in this area included, among others: • reviewing the methodology of the Bank and the Group for the calculation of the expected credit loss and assessing its compliance with the requirements of International Financial Reporting Standards 9: Financial Instruments (“IFRS 9”), • obtaining an understanding of the provisioning process, IT applications used therein, as well as key data sources and assumptions for data used in the expected credit loss model, • evaluating the design, implementation and operational effectiveness of controls in credit risk management and lending processes, and tested key controls related to the approval, recording and monitoring of loans and advances,

Key audit matters (continued)

Key audit matter	How we addressed the key audit matter
For individually significant loans or exposures that are exceeding EUR 150 thousand individually and for which there has been a default (non-revenue exposures), the impairment assessment is based on the knowledge of each individual borrower and often on estimation of the fair value of the related collateral. Related impairment provisions are determined on an individual basis by means of a discounted cash flows analysis. Impairment provision for performing exposures and non-performing retail exposures as well as non-performing corporate exposures below EUR 150 thousand individually (together "collective value adjustment") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgment are incorporated into the model assumptions. The Bank is continuously recalibrating the model parameters which also requires our increased attention in the audit. **Related disclosures accompanying the annual financial statements** For additional information see notes: 2.1. (Credit risk), 3. (Accounting estimates and judgements in applying accounting policies) and note 10. (Loans and advances to customers)	• testing the design, implementation and operational effectiveness of selected key controls in the areas of customer rating, as well as the controls relating to the identification of loss events and default, appropriateness of classification of exposures between performing and non-performing and their segmentation into homogenous groups, calculation of days past due, collateral valuations and calculation of the value adjustments, • testing, on a sample basis, whether the definition of default and the staging criteria were consistently applied in accordance with relevant policies, • evaluating the overall modelling approach of calculation of expected credit losses (ECLs), including the calculation of main risk parameters and macroeconomic factors (probability of default (PD), loss given default (LGD) and exposure at default (EAD)), • testing the adequacy of individual impairment provisions, on a sample basis, with focus on those with the greatest potential impact on the financial statements due to their magnitude and risk characteristics, as well as lower value items, which we independently assessed as high-risk, • conducting a test of details of the selected sample to assess the correctness of the loan classification, • in certain cases, we used our own judgment to determine the parameters for calculating impairment losses on loans and compared our calculations with the impairment of the value calculated by the Bank, • evaluating the accuracy and completeness of the financial statement disclosures.

Key audit matters (continued)

<table>
<tr><th colspan="2">Litigation provisions</th></tr>
<tr><td colspan="2">As at 31 December 2023, in the consolidated financial statements litigation provisions amount to EUR 29 million (31 December 2022: EUR 37 million).

As at 31 December 2023, in the separate financial statements litigation provisions amount to EUR 29 million (31 December 2022: EUR 5 million).</td></tr>
<tr><th>Key audit matter</th><th>How we addressed the key audit matter</th></tr>
<tr><td>On 3 July 2023 the Bank, due to the merger of Nova Hrvatska banka d.d., recognized provisions for litigation provisions for loans initially approved or indexed in Swiss francs (“CHF”).

Litigation provisions refer to loans which are denominated in “CHF”, including claims for the declaration of invalidity of the loan agreement, as a whole, and claims for invalidation of specific clauses of the loan agreement and the default interest on the loans that were converted from “CHF” to “EUR” according to the Law on consumer lending.

Litigation provisions represent the Management Board’s best estimate considering the moment and the volume of potential outflow of economic resources required for the settlement of liabilities on the reporting date.

We focused on this area due to significance of the judgements and estimates in use of International accounting standard 37 that it includes when estimating potential outflow of the economic resources required for the settlement of the Bank’s liabilities that came out of these court disputes, considering their inherent uncertainty.

Related disclosures accompanying the annual financial statements

For additional information see notes: 3. (Accounting estimates and judgements in applying accounting policies) and note 22. (Provisions for commitments and contingencies)</td><td>Our audit procedures in this area included, among others:

• obtaining an understanding of the estimation of litigation provisions regarding the loans initially approved in “CHF” and methodology used therein

• detailed review of court disputes against the Bank regarding the loans denominated in “CHF” as well as the analytics of provisions recognized by these court disputes. We will agree this information with the information presented in the financial statements and the information that we will receive from the Bank’s external legal representatives

• as a part of our testing the estimate of the Management Board we requested independent review and the opinion on the court disputes against the Bank from the Bank’s external legal representatives and we will verify the adequacy of the provisions by comparing the Bank’s provisions with the opinion of the external legal representatives and publicly available information in order to reconsider Management Board’s key judgements

• estimate of the arithmetic accuracy of the calculation of provisions by reperforming the calculation of expected provisions for liabilities and expenses

• evaluation of the accuracy and completeness of the disclosures in the financial statements regarding litigation provisions by criteria od adequacy and compliance with the International accounting standard 37</td></tr>
</table>

Other information in the Annual Report

Management is responsible for other information. Other information include information included in the Annual Report but do not include the separate and consolidated annual financial statements and our Independent auditor's report on them.

Our opinion on the separate and consolidated annual financial statements does not include other information and, except to the extent otherwise explicitly stated in our report, we do not express any kind of assurance conclusion with on them.

In relation with our audit of the separate and consolidated annual 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 annual financial statements or with our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. In this sense, we do not have anything to report.

The Management Board is responsible for compiling the Management Board Report for the Bank and the Group as an integral part of the Bank's and the Group's Annual Report. With respect to the Management Board Report of the Bank and of the Group and the Statement on the Implementation of Corporate Governance Code, we also performed procedures required by the Accounting Act in Croatia (“Accounting Act”). Those procedures include considering whether:

- the Management Board Report of the Bank and of the Group has been prepared in accordance with the requirements of Articles 21 and 24 of the Accounting Act;
- the specific information in the Statement on the Implementation of Corporate Governance Code required by Article 22, paragraph 1, items 3 and 4 of the Accounting Act (“relevant sections of the Implementation of Corporate Governance Code”) has been prepared in accordance with the requirements of Article 22 of the Accounting Act; and
- the Statement on the Implementation of Corporate Governance Code includes the information specified in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

Based on the work that we performed during the audit of the financial statements and procedures above, in our opinion:

- the information given in the Management Board Report of the Bank and of the Group and the relevant sections of the Statement on the Implementation of Corporate Governance Code as part of the Annual report of the Bank for the financial year for which the financial reports have been prepared are in accordance, in all significant determinants, with the separate and consolidated annual financial statements of the Bank and of the Group set out on pages 109 to 240 on which we expressed our opinion as stated in the Opinion section above;
- the information given in the Management Board Report of the Bank and of the Group and the relevant sections of the Statement on the Implementation of Corporate Governance Code is prepared in accordance with the requirements of Articles 21, 22 and 24 of the Accounting Act, respectively;
- the Statement on the Implementation of Corporate Governance Code includes the information specified in Article 22 paragraph 1, items 2, 5, 6 and 7 of the Accounting Act.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Annual Report. We have nothing to report in this respect.

Responsibilities of Management and those charged with Governance for the Annual Financial Statements

The Management Board is responsible for the preparation of annual financial statements that give a true and fair view in accordance with IFRS, and for such internal controls that the Management Board determines necessary to enable the preparation of separate and consolidated annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated annual financial statements, the Management Board 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 Board either intends to liquidate the Bank or the Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor's Responsibility for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated annual 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 higher 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 made based on these annual financial statements.

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

- identify and assess the risks of material misstatement of the separate and consolidated annual 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 the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management of the Bank.
- make conclusion on the appropriateness of Management Board'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 the 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 annual 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 to cease to continue as a going concern.

Auditor's Responsibility for the Audit of the Annual Financial Statements (continued)

- evaluate the overall presentation, structure and content of the separate and consolidated annual financial statements, including the disclosures, and whether the separate and consolidated annual 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also give a statement to those charged with governance that we have acted in accordance with relevant ethical requirements regarding independence and that we will communicate with them on all relationships and other issues that can reasonably be considered to affect our independence as well as, where applicable, about related protections.

Among the matters we are communicating with those charged with governance, we determine those matters that are of utmost importance in auditing the annual financial statements for the current period and are therefore key audit matters. We describe these matters in our independent auditor's report unless the law or regulations prevents public disclosure or when, in exceptionally rare circumstances, we decide that the matter should not be reported in our independent auditor's report as it can reasonably be expected that the negative effects of the announcement will surpass the welfare of public interest in such disclosure.

Report on other legal requirements

On 30 August 2023, the General Assembly of the Bank appointed us to conduct an audit of the Bank's separate and consolidated annual financial statements for the year 2023.

At the date of this Independent Auditor's Report, we have been, for the first time, engaged in performing the statutory audit of the Bank's annual financial statements from 2023 which in total amounts to 1 year.

In the audit of the Bank's separate and consolidated annual financial statements for 2021, we have determined the following materiality levels for the financial statements as a whole:

- for the separate annual financial statements: EUR 10.5 million
- for the consolidated annual financial statements: EUR 10.5 million

which represents approximately 2% of the of the Bank's or Group's net assets for the year 2023.

We chose net assets as the benchmark because, in our view, it is the benchmark against which the performance of the Bank and the Group is commonly measured by users and is a generally acceptable benchmark. Our audit opinion is consistent with the additional report for the Bank's auditing board, prepared in accordance with the provisions of Article 11 of Regulation (EU) No. 537/2014.

During the period between the initial date of the audited separate and consolidated annual financial statements of the Bank for the year 2023 and the date of this Report, we did not provide the Bank and the Group with prohibited non-assurance services and we did not provide internal control or risk management procedure design and implementation services in the business year prior to the aforementioned period related to the preparation and/or control of financial information or the design and implementation of financial information technological systems and we have maintained independence in relation to the Bank during the performance of the audit.

Report on other legal requirements (continued)

Pursuant to the Decision on the structure and contents of annual financial statements published by Croatian National Bank (OG 42/18 and 122/20), the Bank's Management prepared forms presented on pages 241 to 254 (hereinafter „the Forms"). The financial information in the Forms is derived from the separate and consolidated financial statements set out on pages 109 to 240 on which we expressed our opinion as stated in the section Opinion above.

Report based on the requirements of the ESEF Regulation

Auditor's assurance report on the compliance of annual separate and consolidated financial statements (hereinafter: financial statements), prepared pursuant to the provision of Article 462, paragraph 5 of the Capital Market Act (Official Gazette, nos. 65/18, 17/20 and 83/21) by applying the Delegated Regulation (EU) 2018/815 establishing a single electronic reporting format for issuers (hereinafter: the ESEF Regulation).

We conducted the engagement with expressing reasonable assurance as to whether the financial statements prepared for the purposes of public disclosure pursuant to Article 462, paragraph 5 of the Capital Market Act, which are contained in the electronic file hrvatskapostanska-2023-12-31-hr in all material aspects prepared in accordance with the requirements of the ESEF Regulation.

Responsibilities of Management and those charged with governance

The Bank's Management is responsible for the preparation and content of the financial statements in accordance with the ESEF Regulation. In addition, the Bank's Management is responsible for maintaining a system of internal controls that reasonably assures the preparation of financial statements without material non-compliance with the reporting requirements of the ESEF Regulation, whether due to fraud or error.

The Management of the Bank is also responsible for:

- public disclosure of the financial statements contained in the annual report in a valid XBRL format,

  and

- selection and use of XBRL codes in accordance with the requirements of the ESEF Regulation.

Those in charge of governance are responsible for overseeing the preparation of financial statements in the ESEF format as part of the financial reporting process.

Auditor's responsibilities

It is our responsibility to express a conclusion, based on the audit evidence gathered, as to whether the financial statements are free from material non-compliance with the requirements of the ESEF Regulation. We conducted this reasonable assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (revised) - Assurance engagements other than audits or reviews of historical financial information.

Report based on the requirements of the ESEF Regulation

Procedures performed

The nature, timing and extent of the procedures selected depend on the auditor's judgment. Reasonable assurance is a high level of assurance. However, it does not assure that the scope of testing will reveal all significant (material) non-compliance with the ESEF Regulation.

As part of the selected procedures, we have performed the following activities:
- we have read the requirements of the ESEF Regulation,
- we have gained an understanding of the Bank's internal controls relevant to the application of the requirements of the ESEF Regulation,
- we have identified and assessed the risks of material non-compliance with the ESEF Regulation due to fraud or errors; and
- based on that, we have planned and designed procedures for responding to assessed risks and for obtaining reasonable assurance for the purpose of expressing our conclusion.

The aim of our procedures was to assess whether:
- the financial statements, which are included in the separate and consolidated annual report, are prepared in the valid XHTML format,
- the information contained in the separate and consolidated financial statements required by ESEF Regulation, are labelled and all labels meet the following requirements:
- XBRL markup language was used,
- the elements of the basic taxonomy listed in the ESEF Regulation with the closest accounting meaning were used, unless an additional element of taxonomy has been created in accordance with Annex IV ESEF Regulations,
- the labels comply with the common labelling rules under the ESEF Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusion

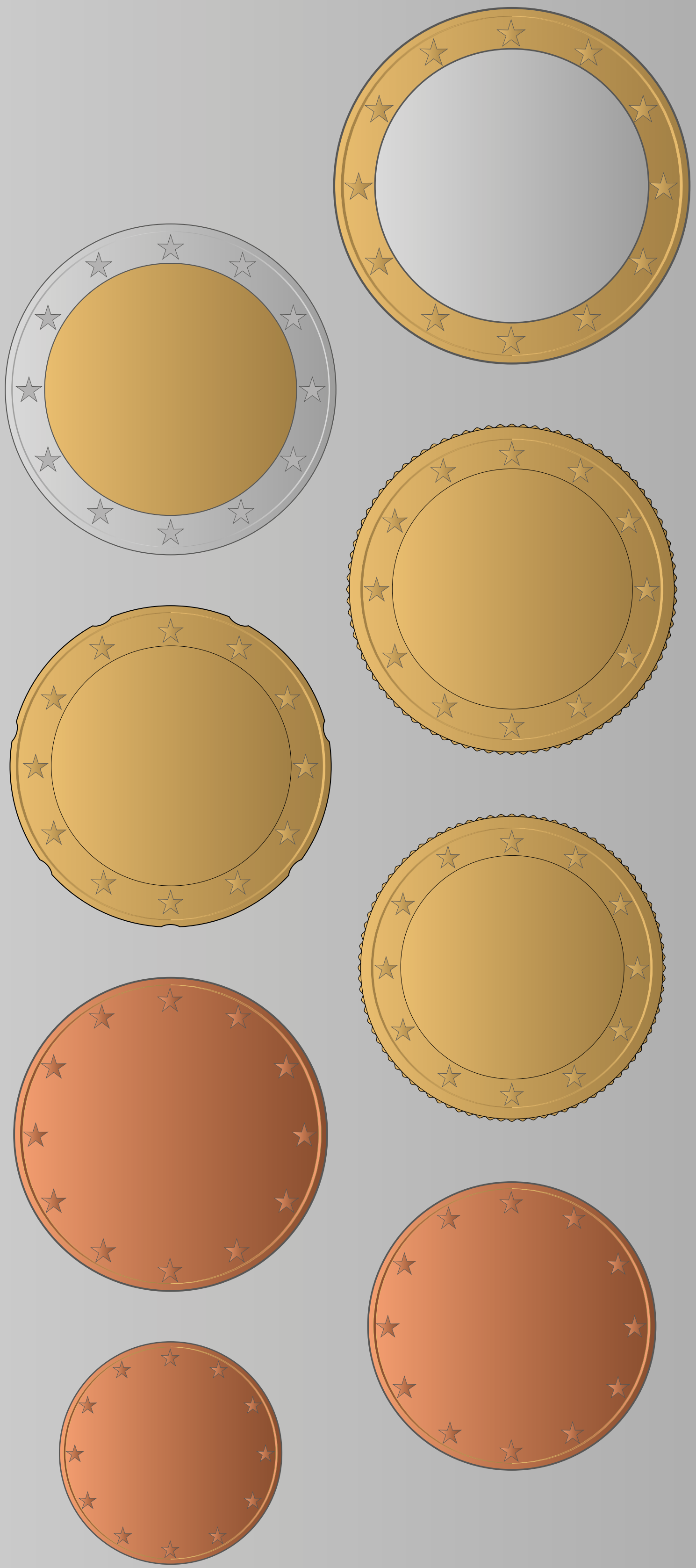
In our opinion, based on the procedures performed and the evidence obtained, the financial statements presented in ESEF format, contained in the above-mentioned electronic file and based on the provision of Article 462, paragraph 5 of the Capital Market Act prepared for the purposes of public disclosure, in all material respects are in line with the requirements of the ESEF Regulation for the year ended 31 December 2023. Our conclusion is not an opinion on the truthfulness and fair presentation of the financial statements presented in electronic form. In addition, we do not express our assurance in other information published with documents in ESEF format.

The partner engaged in the audit of the Bank's and Group's annual financial statements for the year 2023 resulting in this Independent auditor's report is Ivan Čajko, certified auditor.

Zagreb, 28 March 2024
BDO Croatia d.o.o.
Radnička cesta 180
10000 Zagreb

For signatures, please refer to the original Croatian auditor's report, which prevails.

Financial Reports



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EUR '000		Bank		Group	
	Notes	31/12/2023	31/12/2022	31/12/2023	31/12/2022
ASSETS					
Cash and Cash Equivalents	5	3,103,814	1,316,539	3,103,821	1,472,087
Loans and Receivables from Banks	6	3,654	264,749	3,654	28,107
Financial Assets at Fair Value through Profit and Loss	7	55,300	55,622	55,406	67,531
Financial Assets at Fair Value through Other Comprehensive Income	8	4,394	3,789	4,394	3,808
Financial Assets at Amortized Cost	9	855,857	722,976	855,857	796,573
Loans and Receivables from Customers	10	2,909,936	2,106,804	2,909,936	3,061,819
Investment in subsidiaries	12	1,296	13,419	-	-
Deferred tax assets, net	16	5,317	2,992	5,317	9,125
Tax Prepayment		-	-	29	3
Other Assets	17	31,306	21,007	31,465	24,001
Property, Equipment and asset with right of use	13	55,105	39,018	55,242	52,680
Investment Property	14	5,468	5,887	5,872	6,322
Intangible Assets	15	14,606	10,405	14,624	18,023
TOTAL ASSETS		**7,046,053**	**4,563,207**	**7,045,617**	**5,540,079**
LIABILITIES					
Financial Liabilities at Fair Value through Profit and Loss	18	16	31	16	31
Deposits from Banks	19	51,385	28,827	51,385	49,669
Customer Deposits	20	5,872,496	3,894,911	5,872,041	4,591,511
Borrowings	21	484,290	237,533	484,290	335,462
Provisions for commitments and contingencies	22	41,572	19,071	41,581	52,856
Income tax liability		7,508	-	7,508	220
Other Liabilities	23	55,049	35,839	55,267	53,431
TOTAL LIABILITIES		**6,512,316**	**4,216,212**	**6,512,088**	**5,083,180**
EQUITY					
Share Capital	24	161,970	161,228	161,970	161,228
Reserves for treasury shares	24	594	594	594	594
Statutory Reserve	24	6,790	6,651	6,790	6,651
Other Reserves	24	80,614	80,614	80,614	80,614
Fair Value Reserve	24	3,641	3,017	3,641	3,017
Revaluation Reserve	24	5,004	5,004	5,004	5,004
Retained Earnings	24	275,124	89,887	274,916	199,791
TOTAL EQUITY AND RESERVES		**533,737**	**346,995**	**533,529**	**456,899**
TOTAL LIABILITIES, EQUITY AND RESERVES		**7,046,053**	**4,563,207**	**7,045,617**	**5,540,079**

The significant accounting policies and other notes on pages that follow form an integral part of these financial statements.

EUR '000		Bank		Group	
	Notes	31/12/2023	31/12/2022	31/12/2023	31/12/2022
Interests Income using the effective interest method	26	170,655	73,220	191,372	103,057
Other interest income		1,370	1,136	1,590	1,476
Interests Expense	27	(26,182)	(3,717)	(28,654)	(7,374)
Other similar expense		(67)	(22)	(99)	(22)
Net Interest Income		**145,776**	**70,617**	**164,209**	**97,137**
Fees and Commissions Income	28	71,144	69,332	76,306	77,924
Fees and Commissions Expense	29	(41,786)	(41,862)	(43,395)	(43,399)
Net Fees and Commissions Income		**29,358**	**27,470**	**32,911**	**34,525**
Net Gains/(Losses) from Financial Instruments at Fair Value through Profit and Loss	30	6,803	(1,063)	6,763	(136)
Realized Gains on Disposal of Debt Securities at Fair Value through Other Comprehensive Income	31	20	281	20	281
Other Operating Income	32	7,517	1,049	7,892	1,178
Trading and Other Income		**14,340**	**267**	**14,675**	**1,323**
General and Administrative Expenses	33	(83,956)	(65,461)	(98,054)	(92,267)
Depreciation and Amortization	13,14,15	(11,839)	(9,298)	(14,491)	(13,030)
Gains/(losses) from loan impairment and receivables from customers and other assets	34	(5,015)	4,123	(8,772)	(24,678)
Provisions for Liabilities and Expenses	22	5,364	(6,691)	6,745	(7,957)
Operating expenses		**(95,446)**	**(77,327)**	**(114,572)**	**(137,932)**
Gain on Bargain purchase		**-**	**-**	**-**	**135,213**
PROFIT BEFORE TAX		**94,028**	**21,027**	**97,223**	**130,266**
Income Tax expense	35	(13,413)	(3,427)	(14,136)	(3,601)
PROFIT FOR THE YEAR		**80,615**	**17,600**	**83,087**	**126,665**

The significant accounting policies and other notes on pages that follow form an integral part of these financial statements.

EUR '000	Bank		Group	
	2023	2022	2023	2022
Profit for the Year	**80,615**	**17,600**	**83,087**	**126,665**
Other Comprehensive Income				
Items that will not be reclassified subsequently to profit or loss				
Revaluation Reserve	-	1,644	-	1,644
Equity instruments in assets carried at other comprehensive income - net change in fair value	708	123	708	123
Income Tax Relating to Items That Will Not Be Reclassified Subsequently	(83)	(296)	(83)	(296)
	625	**1,471**	**625**	**1,471**
Items that may be reclassified subsequently to profit or loss				
Unrealized loss from Assets Valued through Other Comprehensive Income	-	(30,863)	-	(30,863)
Income Tax Relating to Items That May Be Reclassified Subsequently	-	5,533	-	5,533
	-	**(25,330)**	**-**	**(25,330)**
Net Other Comprehensive Loss for the Year, net of tax	**625**	**(23,859)**	**625**	**(23,859)**
Total Comprehensive Income for the Year	**81,240**	**(6,259)**	**83,712**	**102,806**

EUR '000	Bank		Group	
	2023	2022	2023	2022
Profit for the Year	**80,615**	**17,600**	**83,087**	**126,665**
Earnings per share – Basic and Diluted	**39.82 €**	**8.69 €**	**41.04 €**	**62.56 €**

The significant accounting policies and other notes on pages that follow form an integral part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended December 31, 2023

Group	Share Capital EUR '000	Own Shares EUR '000	Reserve for Own Shares EUR '000	Other Reserves EUR '000	Fair Value Reserve EUR '000	Revaluation Reserve EUR '000	Retained Earnings EUR '000	Total EUR '000
Balance at 1 January 2022	**161,228**	**(63)**	**594**	**92,641**	**28,224**	**3,656**	**66,332**	**352,612**
Revaluation Reserve	-	-	-	-	-	1,644	-	**1,644**
Equity instruments in assets carried at other comprehensive income - net change in fair value	-	-	-	-	123	-	-	**123**
Change in the Fair Value of Financial Assets at Fair Value through Other Comprehensive income	-	-	-	-	(30,863)	-	-	**(30,863)**
Change in actuarial gains/ losses	-	-	-	-	-	-	-	**-**
Deferred Tax	-	-	-	-	5,533	(296)	-	**5,237**
Total comprehensive income	**-**	**-**	**-**	**-**	**(25,207)**	**1,348**	**-**	**(23,859)**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**126,665**	**126,665**
Total Comprehensive Income for 2022	**-**	**-**	**-**	**-**	**(25,207)**	**1,348**	**126,665**	**102,806**
Purchase of treasury shares	-	(27)	-	-	-	-	-	**(27)**
Share based payment	-	90	-	-	-	-	-	**90**
Other changes	-	-	-	-	-	-	1,418	**1,418**
Distribution of 2021 Profit	-	-	-	-	-	-	-	**-**
- Transfer to Statutory Reserves and other reserves	-	-	-	(5,375)	-	-	5,375	**-**
Balance as at 31 December 2022	**161,228**	**-**	**594**	**87,266**	**3,017**	**5,004**	**199,790**	**456,899**
Balance at 1 January 2023	**161,228**	**-**	**594**	**87,266**	**3,017**	**5,004**	**199,790**	**456,899**
Revaluation Reserve	-	-	-	-	-	-	-	**-**
Equity instruments in assets carried at other comprehensive income - net change in fair value	-	-	-	-	708	-	-	**708**
Changes in Fair Value of Financial Assets at fair Value through Other Comprehensive Income	-	-	-	-	-	-	-	**-**
Deferred Tax	-	-	-	-	(83)	-	-	**(83)**
Total comprehensive income	**-**	**-**	**-**	**-**	**625**	**-**	**-**	**625**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**83,087**	**83,087**
Total Comprehensive Income for 2023	**-**	**-**	**-**	**-**	**625**	**-**	**83,087**	**83,712**
Change based on the Conversion Law of HRK to EUR	742	-	-	(742)	-	-	-	**-**
Purchase of treasury shares	-	(7)	-	-	-	-	-	**(7)**
Share based payment	-	7	-	-	-	-	-	**7**
Other changes	-	-	-	-	-	-	(1,798)	**(1,798)**
Distribution of 2022 Profit	-	-	-	-	-	-	-	**-**
Dividend payment	-	-	-	-	-	-	(5,284)	**(5,284)**
Transfer to Statutory Reserves and other reserves	-	-	-	880	-	-	(880)	**-**
Balance as at 31 December 2023	**161,970**	**-**	**594**	**87,404**	**3,642**	**5,004**	**274,915**	**533,529**

The significant accounting policies and other notes on pages that follow form an integral part of these financial statements.

Bank	Share Capital EUR '000	Own Shares EUR '000	Reserve for Own Shares EUR '000	Other Reserves EUR '000	Fair Value Reserve EUR '000	Revaluation Reserve EUR '000	Retained Earnings EUR '000	Total EUR '000
Balance at 1 January 2022	**161,228**	**(63)**	**594**	**92,641**	**28,224**	**3,656**	**65,493**	**351,773**
Revaluation Reserve	-	-	-	-	-	1,644	-	**1,644**
Equity instruments in assets carried at other comprehensive income - net change in fair value	-	-	-	-	123	-	-	**123**
Change in the Fair Value of Financial Assets at Fair Value through Other Comprehensive income	-	-	-	-	(30,863)	-	-	**(30,863)**
Sale of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	**-**
Change in actuarial gains/losses	-	-	-	-	-	-	-	**-**
Deferred Tax	-	-	-	-	5,533	(296)	-	**5,237**
Total comprehensive income	-	-	-	-	(25,207)	1,348	-	**(23,859)**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**17,600**	**17,600**
Total Comprehensive Income for 2022	**-**	**-**	**-**	**-**	**(25,207)**	**1,348**	**17,600**	**(6,259)**
Purchase of treasury shares	-	(27)	-	-	-	-	-	**(27)**
Share based payment	-	90	-	-	-	-	-	**90**
Other changes	-	-	-	-	-	-	1,418	**1,418**
Distribution of 2021 Profit	-	-	-	-	-	-	-	**-**
- Transfer to Statutory Reserves and other reserves	-	-	-	(5,375)	-	-	5,375	**-**
Balance as at 31 December 2022	**161,228**	**-**	**594**	**87,266**	**3,017**	**5,004**	**89,886**	**346,995**
Balance at 1 January 2023	**161,228**	**-**	**594**	**87,266**	**3,017**	**5,004**	**89,886**	**346,995**
Revaluation Reserve	-	-	-	-	-	-	-	**-**
Equity instruments in assets carried at other comprehensive income - net change in fair value	-	-	-	-	708	-	-	**708**
Deferred Tax	**-**	**-**	**-**	**-**	**(83)**	**-**	**-**	**(83)**
Total comprehensive income	**-**	**-**	**-**	**-**	**625**	**-**	**-**	**625**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**80,615**	**80,615**
Total Comprehensive Income for 2023	-	-	-	-	625	-	80,615	**81,240**
Change based on the Conversion Law of HRK to EUR	742	-	-	(742)	-	-	-	**-**
Increase of capital through business mergers	-	-	-	-	-	-	110,786	**110,786**
Purchase of treasury shares	-	(7)	-	-	-	-	-	**(7)**
Share based payment	-	7	-	-	-	-	-	**7**
Distribution of 2022 Profit	-	-	-	-	-	-	-	**-**
Dividend payment	-	-	-	-	-	-	(5,284)	**(5,284)**
Transfer to Statutory Reserves and other reserves	-	-	-	880	-	-	(880)	**(0)**
Balance as at 31 December 2023	**161,970**	**-**	**594**	**87,404**	**3,642**	**5,004**	**275,123**	**533,737**

The significant accounting policies and other notes on pages that follow form an integral part of these financial statements.

Group EUR '000	Notes	1.1. – 31.12.2023	1.1. – 31.12.2022
Cash Flows from Operating Activities			
Profit Before Taxation		97,223	130,266
Adjusted by:			
- Depreciation and Amortization	13,14,15	14,491	13,030
- Net Impairment Losses on Loans and Receivables from Customers and Other assets		8,741	24,678
- (gains) / losses on provisions for liabilities and charges	22	(6,745)	7,957
- Net change on Financial Assets at Fair Value	31	(4,433)	(8,237)
- Net interest income		(164,208)	(97,137)
- Dividend income		-	(154)
- Gain from Bargain purchase		-	(135,213)
- Other		1,058	1,304
Changes in Operating Assets and Liabilities			
Loans and Receivables from Banks		8,953	(3,214)
Mandatory CNB Reserves		-	233,705
Financial Assets at Fair Value through Profit and Loss		12,125	103,232
Financial Assets at amortized cost		(59,284)	(341,420)
Financial Assets at fair value through other comprehensive income		(586)	137,723
Loans and Receivables from Customers		113,094	(238,463)
Other assets		(25)	39,403
Deposits from Banks		1,716	(397,512)
Customer Deposits		1,280,530	877,289
Other Liabilities		676	(401)
Interest received		192,961	89,264
Interest paid		(28,754)	(7,190)
Net cash flow from operating activities before taxes		**1,467,533**	**428,910**
Income Tax Paid		-	330
Net cash flow from operating activities		**1,467,533**	**429,240**
Cash Flows from Investing Activities			
Net purchase of Property, Equipment and Intangible Assets		(9,359)	(41,032)
Net inflow from the NHB acquisition		-	145,378
Net outflow from the Pronam acquisition		-	(2,497)
Dividends Received		-	154
Net Cash flow from Investing Activities		**(9,359)**	**102,003**
Cash Flows from Financing Activities			
Increase in Borrowings		226,647	200,785
Repayments of Borrowings		(66,447)	(86,467)
Other income from financing activities		(2,809)	(8,491)
Net Cash flow from Financing Activities		**157,391**	**105,827**
FX changes on cash and cash equivalents		(143)	-
Net Increase in Cash and Cash Equivalents		**1,615,422**	**637,070**
Cash and Cash Equivalents at the Beginning of the Year	37	**1,499,948**	**862,878**
Cash and Cash Equivalents at the End of the Year	37	**3,115,370**	**1,499,948**

The significant accounting policies and other notes on pages that follow form an integral part of these financial statements.

Bank

EUR '000	Notes	1.1. – 31.12.2023	1.1. – 31.12.2022
Cash Flows from Operating Activities			
Profit Before Taxation		94,028	21,027
Adjusted by:			
- Depreciation and Amortization	13,14,15	11,839	9,298
- Net Impairment Losses on Loans and Receivables from Customers and Other assets		5,015	(4,123)
- (gains) / losses on provisions for liabilities and charges	22	(5,364)	6,691
- Net change on Financial Assets at Fair Value	31	(3,388)	(6,524)
- Net interest income		(145,776)	(70,617)
- Dividend income		(984)	(338)
Changes in Operating Assets and Liabilities			
Loans and Receivables from Banks		14,975	(74,942)
Mandatory CNB Reserves		-	176,049
Financial Assets at Fair Value through Profit and Loss		322	26,887
Financial Assets at amortized cost		(58,454)	(335,700)
Financial Assets at fair value through other comprehensive income		-	205,102
Loans and Receivables from Customers		101,885	(205,559)
Other assets		(8,833)	2,515
Deposits from Banks		(126,481)	24,799
Customer Deposits		1,290,739	784,463
Other Liabilities		(7,080)	7,400
Interest received		172,025	60,184
Interest paid		(26,249)	(3,533)
Net cash flow from operating activities before taxes		**1,308,217**	**623,079**
Income Tax Paid		-	(5,619)
Net cash flow from operating activities		**1,308,217**	**617,460**
Cash Flows from Investing Activities			
Investment in subsidiaries		149,580	(12,123)
Net purchase of Property, Equipment and Intangible Assets		(9,359)	(9,795)
Dividends Received		984	338
Net Cash flow from Investing Activities		**141,205**	**(21,580)**
Cash Flows from Financing Activities			
Increase in Borrowings		226,647	138,821
Repayments of Borrowings		(66,447)	(86,467)
Lease repayments under IFRS 16		(2,809)	(2,432)
Net Cash flow from Financing Activities		**157,391**	**49,922**
FX changes on cash and cash equivalents		(124)	-
Net Increase in Cash and Cash Equivalents		**1,606,689**	**645,802**
Cash and Cash Equivalents at the Beginning of the Year	37	**1,508,674**	**862,872**
Cash and Cash Equivalents at the End of the Year	37	**3,115,363**	**1,508,674**

The significant accounting policies and other notes on pages that follow form an integral part of these financial statements.

1. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

Hrvatska Poštanska Bank p.l.c. Zagreb ("Bank") is a joint stock company incorporated and domiciled in the Republic of Croatia, Jurišićeva 4, Zagreb. The Bank is the parent of the Hrvatska Poštanska Bank Group (“the Group).

Bank is the parent company of the Hrvatska poštanska banka Group ("Group", "HPB Group"), which includes the following subsidiaries consolidated according International Financial Reporting Standards (IFRS) adopted in European Union:

	Industry	State	Ownership as of 31 December 2023	Ownership as of 31 December 2022
HPB Invest Ltd.	Investment Funds Management	Croatia	100%	100%
HPB-nekretnine Ltd.	Real Estate Agency and Construction	Croatia	100%	100%
Nova hrvatska banka p.l.c.	Financial services	Croatia	-	100%
Pronam Nekretnine Ltd.	Real Estate Agency and Construction	Croatia	-	100%

An overview of investments in HPB subsidiaries is presented in note 12, while the consolidation basis is described in note 1, item e).

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

These financial statements were approved by the Management Board on March 28, 2024, for submission to the Supervisory Board.

The main accounting policies applied in the preparation of these financial statements are presented in following notes. Where accounting policies coincide with the accounting principles of International Financial Reporting Standards adopted in European Union, in the description of the Group's accounting policies, individual standards may be referred to, and unless otherwise stated, these are the Standards that were in effect at 31 December 2023.

The accompanying financial statements are prepared in accordance with statutory requirements and only as general information and are not intended for any particular purpose or transaction. Therefore, users are advised not to rely exclusively on them in making any decisions, and to conduct further examinations prior to making a decision.

1. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS (continued)

a) Statement of Compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union ("IFRS") applying the going concern principle.

In the financial statements for the year ended December 31, 2023, the Bank and the Group changed the framework of financial reporting from reporting in accordance with the legal accounting regulations applicable to banks in the Republic of Croatia to reporting in accordance with IFRS.

The Bank did not publish the third balance sheet in its 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, as it determined that the change in the financial reporting framework does not have a significant impact on the Bank's and Group’s financial statements.

Significant accounting policies applied in preparation of these financial statements are set out hereafter.

Basis of preparation

These financial reports represent the general-purpose financial reports of the Bank and Group.

The financial reports are prepared on the fair value basis for financial assets and liabilities at fair value through profit or loss, at fair value through other comprehensive income, derivative financial instruments and property and repossessed assets. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortized or historical cost.

In preparing the financial reports, management is required to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period. Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under current circumstances, the results of which form the basis of making the judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of applicable standards that have significant effects on financial reports and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

b) New Standards, Interpretation and Changes of Published Standards

Initial application of new amendments to the existing standards and interpretations effective for the current financial period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current financial period:

- IFRS 17 “Insurance contracts” and amendments to IFRS 17 “Insurance contracts” -effective for annual periods beginning on or after 1 January 2023
- Amendments to IAS 1 “Presentation of financial statements” and IFRS Practice Statement 2 - Disclosure of Accounting Policies, effective 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, effective for annual periods beginning on or after 1 January 2023
- Amendments to IAS 12 “Income Taxes” - Deferred Tax related to Assets and Liabilities arising from a Single Transaction, effective for annual periods beginning on or after 1 January 2023

- Amendments to IAS 12 “Income Taxes” - International Tax Reform – Pillar Two Model Rules, effective immediately upon the issue and for annual periods beginning on or after 1 January 2023

The adoption of these amendments to existing standards did not lead to significant changes in Bank’s and Group’s financial statements.

Standards, amendments to existing standards and interpretations issued by the IASB and adopted in the European Union, but not yet effective:

- Amendments to IFRS 16 “Leases”- Lease Liability in a Sale and Leaseback, effective for annual periods beginning on or after 1 January 2024
- Amendments to IAS 1 “Presentation of Financial Statements” - Classification of Liabilities as Current or Non-current Date, Classification of Liabilities as Current or Non-current - Deferral and Non-current Liabilities with Covenants, effective for annual periods beginning on or after 1 January 2024

IFRS currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards and amendments to existing standards, the adoption of which the European Union has not yet decided on (date of entry into force set out below relate to IFRSs issued by the IASB):

- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures Supplier Finance Arrangements, effective for annual periods beginning on or after 1 January 2024
- Amendments IAS 21 The Effects of Changes in Foreign Exchange Rates-Lack of Exchangeability, effective for annual periods beginning on or after 1 January 2025

The Bank and Group expects that the adoption of the specified new standards and changes to the existing standards will not lead to significant changes in the financial statements of the Bank and Group in the period of the first application of the standards.

c) Functional and Presentation Currency

Items included in the financial statements of the Bank are presented in the currency of the primary economic environment in which the Bank and Group operates (functional currency). As the Republic of Croatia adopted the euro as its official currency on January 1, 2023, pursuant to the Act on the Introduction of the Euro as the Official Currency in the Republic of Croatia, the Bank and Group shifted its reporting currency from Croatian kunas to euros for the financial statements of the year ending December 31, 2023. Thus, these financial statements for the year ending December 31, 2023, mark the first instance of preparation in euros. The euro has served as the Bank's and Group’s functional currency from January 1, 2023, onwards, with the kuna serving in this capacity until the end of 2022. Although changing the presentation currency in the financial statements constitutes a modification in accounting policies necessitating retrospective application, the Bank and Group did not issue a third balance sheet for the financial year ending December 31, 2023, as per International Accounting Standard 8 (IAS 8) Accounting Policies, Changes in Accounting Estimates and Errors. This decision was based on the determination that the change in presentation currency would not materially affect the Bank's financial statements given the HRK/EUR exchange rate's stability in recent years.

For the year 2022, financial statements were compiled using the Croatian kuna as both the functional and reporting currency, valid until December 31, 2022. In the financial statements for the year concluded on December 31, 2023, the financial data for 2022 are expressed in euros, recalculated at the fixed conversion rate (1 EUR = 7.53450 HRK).

d) Changes in the presentation or classification of items within the financial statements

In 2022, the Bank reclassified certain positions of financial statements related to historical periods. In the profit and loss account, the item net profit/loss on exchange rate differences from the revaluation of monetary assets and liabilities (previously part of the net profit from securities at fair value through the profit and loss account) was transferred to other operating income. The item of net gains from foreign currency trading was transferred to net gains from securities at fair value through the profit and loss account.

e) The basis for consolidation

The financial statements are presented for the Bank and the Group. The Group's financial statements consist of the consolidated financial statements of the parent company and its subsidiaries over which it has control: HPB-nekretnine Ltd., Real Estate Company and HPB Invest Ltd., Investment Fund Management Company. All subsidiaries are 100% owned by their parent company, which are also based in Croatia.

As part of consolidation, assets, liabilities, equity, revenues and expenses between Group members are eliminated entirely.

f) Foreign Currencies

Transactions in foreign currencies are translated into EUR at the rate of exchange applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into EUR at the foreign exchange rate applicable at that date. Foreign exchange differences arising on translation are recognized in the P&L report. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated in EUR at the foreign exchange rates applicable at the dates when the fair values were determined. Non-monetary assets and items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction and are not recalculated. The fair value of monetary assets through other comprehensive income denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

The official middle exchange rate as of December 31, 2023 was: 1.1050 USD = 1 EUR; 0.9260 CHF = 1 EUR.

The official middle exchange rate as of December 31, 2022 was: 1.0666 USD = 1 EUR; 0.9847 CHF = 1 EUR.

2. RISK MANAGEMENT

This note details the Bank's and Group risk exposures as well as the methods applied by the management to identify, measure and manage those risks for the purpose of preserving capital. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk, interest rate risk in the Bank's non-trading book, market risk and operational risk.

An integrated system of risk management is established at the Bank and Group level by introducing a set of policies, procedures, and manuals, determining the limits of risk levels acceptable to the Bank and monitoring their implementation.

The responsibility for determining the framework of the Bank's and Group risk management lies with the Bank's Management Board which has delegated the risk management tasks to the Assets and Liabilities Management Committee, Credit Committee and Operational Risk Management Committee.

2.1. Credit risk

The Bank is subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties.

The risk that counterparties to financial instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank evaluates debtors' creditworthiness, and in order to minimize credit risk, obtains appropriate collateral.

At reporting date, the Bank's credit risk exposure to derivative financial instruments classified as at fair value through profit or loss is presented by the positive fair value of these instruments, as recorded in the report of financial position.

The Bank is exposed to credit risk primarily through loans and receivables from customers. The amount of credit exposure in this regard, as well as held to maturity debt securities recognized at amortized cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to the credit risk through off-balance sheet items, i.e. through commitments arising from unused facilities and guarantees issued, as disclosed in Note 38.

Credit risk management comprises assessment of placements' credit risk, subsequent monitoring, supervision, and evaluation of recoverability of placements and off-balance sheet commitments, as well as formation of required impairments and provisions for identified losses on placements and off-balance sheet commitments and reporting to the Management Board of the Bank.

Assessment of the individual credit risk exposure comprises the following:

- debtors' creditworthiness,
- debtors' timeliness in meeting their obligations,
- collateral quality.

Monitoring of credit risk includes continuous assessment whether elements exist which would indicate a deterioration of the client's financial position or an increase in risk due to the decrease of collateral value.

2.1.1. Credit risk rating

For provision calculation for credit loss losses, the Bank has established an internal model system that assigns to clients the appropriate PD and internal rating, for both segments retail and corporate. Two different models are used in corporate segment - for small clients and medium/large clients. The corresponding PD of a client is calculated according to the model and is mapped on an internally defined master scale with a specified spread of probability of default as shown in the table below:

Associated internal rating	Associated Comparable Rating of International Rating Agency S&P / Moody's	Associated PD interval (lower limit included)
1	AA+ / Aa1	0.00% – 0.09%
2	A- / A3	0.09% – 0.19%
3	BBB / Baa2	0.19% – 0.31%
4	BBB / Baa2	0.31% – 0.51%
5	BBB- / Baa3	0.51% – 0.82%
6	BB / Ba2	0.82% – 1.33%
7	BB / Ba2	1.33% – 2.14%
8	BB- / Ba3	2.14% – 3.46%
9	B / B2	3.46% – 5.59%
10	CCC+ / Caa1	5.59% – 9.04%
11	CCC+ / Caa1	9.04% – 14.60%
12	CC / Ca-C	14.60% – 100%
DEFAULT	D / D	100%

The Bank applies a "model-based" approach to the development of internal models. In this approach, credit risk scores are assigned by internally developed statistical models with limited involvement of loan officers. Statistical models include qualitative and quantitative information that provide the best prediction based on historical data on clients in default.

Directorate for Quantitative Modelling regularly monitors and validates established internal rating models, tests them on real data and updates them, if necessary. The Bank regularly checks the accuracy of the rating assessment and evaluates the predictability of the model.

Where applicable, counterparties are assigned external ratings from independent international rating agencies, such as S&P, Moody's and Fitch. The mentioned ratings are publicly available. The external credit rating and corresponding probability of default (PD) range are applied to exposures to sovereigns, banks and investments in debt securities.

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.1. Credit risk rating (continued)

Quality of the loan portfolio at amortized cost in corporate segment as of December 31, 2023:

EUR '000	Stage 1 (12-month credit losses)	Stage 2 (lifetime credit losses)	Stage 3 (lifetime credit losses)	Total
Internal Rating				
1	-	-	-	**-**
2	236	-	-	**236**
3	460,233	16,983	-	**477,216**
4	22,473	111	-	**22,584**
5	124,531	2,505	-	**127,036**
6	139,518	13,211	-	**152,729**
7	160,719	38,278	-	**198,997**
8	163,526	33,104	-	**196,630**
9	62,354	67,404	-	**129,758**
10	16,759	9,217	-	**25,976**
11	2	13,047	-	**13,049**
12	-	7,183	-	**7,183**
DEFAULT	-	-	85,699	**85,699**
Gross exposure	**1,150,351**	**201,043**	**85,699**	**1,437,093**
Value adjustment	10,829	9,880	64,017	**84,726**
Net exposure	**1,139,522**	**191,163**	**21,682**	**1,352,367**

Quality of the loan portfolio at amortized cost in corporate segment as of December 31, 2022:

EUR '000	Stage 1 (12-month credit losses)	Stage 2 (lifetime credit losses)	Stage 3 (lifetime credit losses)	Total
Internal Rating				
1	-	-	-	**-**
2	-	-	-	**-**
3	465,820	15,085	-	**480,905**
4	21,581	3	-	**21,584**
5	114,608	3,842	-	**118,450**
6	58,722	1,541	-	**60,263**
7	97,228	22,114	-	**119,342**
8	90,985	48,276	-	**139,261**
9	48,678	21,938	-	**70,616**
10	13,339	18,916	-	**32,255**
11	6,207	1,509	-	**7,716**
12	-	417	-	**417**
DEFAULT	-	-	114,712	**114,712**
Gross exposure	**917,169**	**133,640**	**114,712**	**1,165,521**
Value adjustment	10,036	6,268	84,543	**100,847**
Net exposure	**907,133**	**127,372**	**30,169**	**1,064,674**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.1. Credit risk rating (continued)

Quality of the loan portfolio at amortized cost in retail segment as of December 31, 2023:

EUR '000	Stage 1 (12-month credit losses)	Stage 2 (lifetime credit losses)	Stage 3 (lifetime credit losses)	Total
Internal Rating				
1	47,426	2,792	-	**50,218**
2	416,206	9,472	-	**425,678**
3	144,999	6,416	-	**151,415**
4	262,422	18,241	-	**280,663**
5	171,644	19,220	-	**190,864**
6	121,639	38,552	-	**160,191**
7	17,949	20,913	-	**38,862**
8	20,667	26,008	-	**46,675**
9	13,443	24,501	-	**37,944**
10	30,745	50,585	-	**81,330**
11	12,792	26,339	-	**39,131**
12	-	30,862	-	**30,862**
DEFAULT	-	-	180,097	**180,097**
Gross exposure	**1,259,932**	**273,901**	**180,097**	**1,713,930**
Value adjustment	5,631	21,867	128,863	**156,361**
Net exposure	**1,254,301**	**252,034**	**51,234**	**1,557,569**

Quality of the loan portfolio at amortized cost in retail segment as of December 31, 2022:

EUR '000	Stage 1 (12-month credit losses)	Stage 2 (lifetime credit losses)	Stage 3 (lifetime credit losses)	Total
Internal Rating				
1	62,446	4,268	-	**66,714**
2	368,794	5,496	-	**374,291**
3	108,948	3,253	-	**112,201**
4	145,234	9,993	-	**155,228**
5	81,686	3,863	-	**85,548**
6	60,390	6,453	-	**66,842**
7	9,677	7,040	-	**16,717**
8	6,307	6,054	-	**12,361**
9	14,100	16,027	-	**30,126**
10	41,321	45,528	-	**86,849**
11	10,784	14,901	-	**25,685**
12	-	8,832	-	**8,832**
DEFAULT	-	-	105,139	**105,139**
Gross exposure	**909,687**	**131,708**	**105,139**	**1,146,534**
Value adjustment	5,858	11,373	87,173	**104,404**
Net exposure	**903,829**	**120,335**	**17,966**	**1,042,130**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.1. Credit risk rating (continued)

The following tables present the classification of exposures into risk categories and the allocation of the corresponding impairment losses as a percentage of gross principal.

Group

%	Loans and Receivables from Customers	Impairment Allowance	Loans and Receivables from Banks	Impairment Allowance	Financial Assets valued at Amortized cost	Impairment Allowance	Balances with the CNB	Impairment Allowance	Fees Receivables	Impairment Allowance
2023										
Stage 1	76.49	6.88	100.00	100.00	99.97	98.76	99.99	9.29	70.44	5.32
Stage 2	15.07	13.17	-	-	0.03	1.24	-	-	5.79	1.13
Stage 3	8.44	79.95	-	-	-	-	0.01	90.71	23.77	93.56

%	Loans and Receivables from Customers	Impairment Allowance	Loans and Receivables from Banks	Impairment Allowance	Financial Assets valued at Amortized cost	Impairment Allowance	Balances with the CNB	Impairment Allowance	Fees Receivables	Impairment Allowance
2022										
Stage 1	79.89	8.81	99.77	71.69	98.65	92.50	100.00	-	53.95	2.64
Stage 2	11.57	11.09	-	-	1.35	1.13	-	-	4.78	-
Stage 3	8.54	80.10	0.23	28.31	-	6.38	-	-	41.27	97.36

Bank

%	Loans and Receivables from Customers	Impairment Allowance	Loans and Receivables from Banks	Impairment Allowance	Financial Assets valued at Amortized cost	Impairment Allowance	Balances with the CNB	Impairment Allowance	Fees Receivables	Impairment Allowance
2023										
Stage 1	76.49	6.88	100.00	100.00	99.97	98.76	99.99	9.29	70.44	5.32
Stage 2	15.07	13.17	-	-	0.03	1.24	-	-	5.79	1.13
Stage 3	8.44	79.95	-	-	-	-	0.01	90.71	23.77	93.56

%	Loans and Receivables from Customers	Impairment Allowance	Loans and Receivables from Banks	Impairment Allowance	Financial Assets valued at Amortized cost	Impairment Allowance	Balances with the CNB	Impairment Allowance	Fees Receivables	Impairment Allowance
2022										
Stage 1	79.01	7.74	99.98	95.30	98.51	98.80	100.00	-	52.55	2.64
Stage 2	11.48	8.59	-	-	1.49	1.20	-	-	4.93	-
Stage 3	9.51	83.66	0.02	4.70	-	-	-	-	42.53	97.36

2. RISK MANAGEMENT (continued)
   2.1. Credit risk (continued)
   2.1.1. Credit risk rating (continued)

Forward-looking information (FLI)

In accordance with relevant regulations and guidelines, the Bank includes forward-looking information - FLI in its own process of calculating provisions for credit losses for clients in the corporate and retail segments. The aforementioned approach is used to adjust the Bank's internally established rating models in order to assess what impact of observed and expected trends in the general macroeconomic environment may have on the Bank's provisions for credit losses in the corporate and retail segments.

Bank's sources of forward-looking information are publications and research papers published by relevant and respected institutions such as central banks, various national entities, universities, etc. The latest calculation of the mentioned approach was applied in July 2023, and its impact on the Bank's provision for loan losses was based on the official publications of Croatian National Bank, namely "Macroeconomic Trends and Forecasts" and "Financial Stability".

Based on the aforementioned publications, the Bank created three scenarios (neutral, positive and negative), each of which contains the movements of the following variables:

- Unemployment rate,
- Change in investment rate,
- Change in the rate of import of goods and services.

For each of the above three scenarios, the Bank calculated the impact of the scenarios on the PD used to calculate provisions for credit losses for the two specified customer segments, as a ratio of the average PD portfolio calculated after the application of the scenario and the average PD portfolio calculated before the application of the scenario. When this ratio is greater than 1, the mentioned scenario will result in a higher PD and consequently an increase in the calculated provisions for loan losses. Therefore, if this ratio is less than 1, the above scenario will result in a lower PD and a decrease in the calculated provisions for loan losses.

Effect of the approach, which includes forward-looking information, is calculated by the weighted average of the impact of three scenarios, with the weights assigned as follows (in coordination with the Office for Strategic Development):

- Negative scenario: 5%
- Neutral scenario: 65%
- Positive scenario: 30%

In addition, due to the macroeconomic uncertainty arising from the invasion on Ukraine, the Bank increased the final effect (the ratio of the average PD portfolio after the application of the scenario to the average PD portfolio before the application of the scenario) by establishing a Management Overlay calculated by additional analysis and projection of the portfolio movement with regard to early warning signals.

The final effect of the approach consists of a point-in-time (PIT) correction factor calculated on the basis of macroeconomic forecasts and the previously mentioned Management Overlay.

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.1. Credit risk rating (continued)

Maximum Exposure to Credit Risk before Consideration of Collateral

The table below shows the maximum exposure of the Bank and Group to credit risk at December 31, 2023 and the maximum exposure of the Group and the Bank to credit risk at December 31, 2022, not considering the collateral, if any. The exposures presented below are net of impairment losses and provisions.

Maximum Exposure		**Group**		**Bank**	
	Note	**2023 EUR '000**	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Giro Account with CNB and Other Banks	5	3,103,821	1,472,087	3,103,814	1,316,539
Loans and Receivables from Banks	6	3,654	28,107	3,654	264,749
Investments measured at Fair Value through profit and loss account	7	39,652	53,752	39,547	41,866
Investments measured at amortized cost	9	855,857	796,573	855,857	722,976
Loans and Receivables from Customers	10	2,909,936	3,061,819	2,909,936	2,106,804
Fees Receivables		2,794	1,816	2,794	1,726
Off-Balance Sheet Exposure	38	**584,687**	**697,535**	**584,687**	**476,288**
Undisbursed Lending Commitments		406,624	402,105	406,624	351,481
Guarantees		177,987	294,729	177,987	124,807
Other Contingent Liabilities		76	701	76	-
Total Credit Exposure		**7,500,401**	**6,111,689**	**7,500,289**	**4,930,948**

Exposure to the state and the CNB is presented in Note 36.

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)

2.1.2. Assets Exposed to Credit Risk

Group 2023	Loans and Receivables from Customers	Loans and Receivables from Banks	Financial Assets measured at Amortized cost	Giro Account with CNB and Other Banks	Fees Receivables
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Stage 1	2,410,281	3,709	856,977	2,967,032	2,626
Stage 2	474,924	-	250	-	210
Stage 3	265,818	-	-	196	860
Total Gross	**3,151,023**	**3,709**	**857,227**	**2,967,228**	**3,696**
Stage 3 Provisions	(192,758)	-	-	(196)	(772)
Stage 1 & 2 Provisions	(48,329)	(55)	(1,370)	(20)	(53)
Total expected losses	**(241,087)**	**(55)**	**(1,370)**	**(216)**	**(825)**
Total	**2,909,936**	**3,654**	**855,857**	**2,967,012**	**2,871**

Purchased or issued credit impaired financial assets (POCI) for the Group in 2023 for the Group amounts to EUR 10,658 thousand (2022: EUR 13,311 thousand).

2022	Loans and Receivables from Customers	Loans and Receivables from Banks	Financial Assets measured at Amortized cost	Giro Account with CNB and Other Banks	Fees Receivables
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Stage 1	2,659,751	28,275	787,119	1,472,087	1,646
Stage 2	385,340	-	10,757	-	146
Stage 3	284,327	66	-	-	1,259
Total Gross	**3,329,418**	**28,341**	**797,876**	**1,472,087**	**3,051**
Stage 3 Provisions	(214,338)	(66)	-	-	(1,202)
Stage 1 & 2 Provisions	(53,261)	(168)	(1,303)	-	(33)
Total expected losses	**(267,599)**	**(234)**	**(1,303)**	**-**	**(1,235)**
Total	**3,061,819**	**28,107**	**796,573**	**1,472,087**	**1,816**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.2. Assets Exposed to Credit Risk (continued)

Bank

2023	**Loans and Receivables from Customers**	**Loans and Receivables from Banks**	**Financial Assets measured at Amortized cost**	**Giro Account with CNB and Other Banks**	**Fees Receivables**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Stage 1	2,410,281	3,709	856,977	2,967,032	2,550
Stage 2	474,924	-	250	-	210
Stage 3	265,818	-	-	196	860
Total Gross	**3,151,023**	**3,709**	**857,227**	**2,967,228**	**3,620**
Stage 3 Provisions	(192,758)	-	-	(196)	(772)
Stage 1 & 2 Provisions	(48,329)	(55)	(1,370)	(20)	(53)
Total expected losses	**(241,087)**	**(55)**	**(1,370)**	(216)	**(825)**
Total	**2,909,936**	**3,654**	**855,857**	**2,967,012**	**2,795**

Purchased or issued credit impaired financial assets (POCI) for the Bank in 2023 for the Bank amounts to EUR 10,658 thousand (2022: EUR 4,904 thousand).

2022	**Loans and Receivables from Customers**	**Loans and Receivables from Banks**	**Financial Assets measured at Amortized cost**	**Giro Account with CNB and Other Banks**	**Fees Receivables**
	EUR '000	**EUR '000**	**EUR '000**	**EUR '000**	**EUR '000**
Stage 1	1,826,856	266,094	713,439	1,316,539	1,556
Stage 2	265,348	-	10,757	-	146
Stage 3	219,851	66	-	-	1,259
Total Gross	**2,312,055**	**266,160**	**724,196**	**1,316,539**	**2,961**
Stage 3 Provisions	(171,716)	(66)	-	-	(1,202)
Stage 1 & 2 Provisions	(33,535)	(1,345)	(1,220)	-	(33)
Total expected losses	**(205,251)**	**(1,411)**	**(1,220)**	-	**(1,235)**
Total	**2,106,804**	**264,749**	**722,976**	**1,316,539**	**1,726**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.2. Assets Exposed to Credit Risk (continued)

In accordance with applicable acts, the Bank utilizes the following common types of collateral: bank guarantees; HAMAG (Croatian Agency for SMEs, Innovation and Investments) and other corporate guarantees; bills of exchange accepted by a bank; pledged property and equipment; insurance policies; pledged shares, bonds, commercial papers, and units in open-ended investment funds; assignment of receivables (cessions) from corporate clients and the Government; pledged concessions; pledged industrial and intellectual property; and other common financial execution instruments (bills of exchange and promissory notes).

Collateral value is reviewed along the lines of internal policies and procedures, and in accordance with good business practice, current market trends as well as the Decision on Classifying Placements and Off-Balance Sheet Liabilities of Credit Institutions. The value of residential real estate is monitored in accordance with regulations.

Collateral value in the table below relates to recorded collateral value based on valuation made by certified appraisers without adjustments for discount factors but excluding burdens listed before the Bank and limiting to the amount of exposure which it collateralizes.

		Group		Bank	
Asset Type	**Collateral Type**	**2023 EUR '000**	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Loans and Receivables from Customers	Deposits	14,513	13,597	14,513	6,942
	Guarantees and Warranties of the Republic of Croatia	461,931	455,581	461,931	440,995
	Real Estate –Non-Business Purposes	765,170	707,810	765,170	557,217
	Real Estate – Business Purposes	366,153	293,664	366,153	84,351
	Movable Property (equipment, supplies, vehicles, ships etc.)	42,892	26,946	42,892	23,664
	Equity Investments (Single-Stocks and Funds)	7,220	12,118	7,220	12,118
	Land	75,005	54,245	75,005	54,245
Total		**1,732,884**	**1,563,961**	**1,732,884**	**1,179,533**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.2. Assets Exposed to Credit Risk (continued)

Below is presented an overview of the age structure due and not yet due receivables by gross loan principal and interest based on days-past-due:

Group **EUR '000**	**Total**	**Undue Exposure to Credit Risk**	**Days Past Due 1-30**	**Days Past Due 31-60**	**Days Past Due 61-90**	**Days Past Due 91-180**	**Days Past Due 180+**
31 December 2023							
Government	449,248	448,673	442	28	31	73	2
Other Corporate Clients	987,845	921,609	5,046	501	249	446	59,994
Retail	1,713,930	1,610,104	10,963	1,560	1,451	3,893	85,958
Total	**3,151,023**	**2,980,386**	**16,451**	**2,089**	**1,731**	**4,412**	**145,954**
31 December 2022							
Government	471,311	470,942	369	-	-	-	-
Other Corporate Clients	1,074,328	978,888	4,374	865	1,087	1,040	88,074
Retail	1,783,779	1,684,211	2,837	1,704	1,671	4,495	88,861
Total	**3,329,418**	**3,134,041**	**7,580**	**2,569**	**2,758**	**5,535**	**176,935**

Bank **EUR '000**	**Total**	**Undue Exposure to Credit Risk**	**Days Past Due 1-30**	**Days Past Due 31-60**	**Days Past Due 61-90**	**Days Past Due 91-180**	**Days Past Due 180+**
31 December 2023							
Government	449,248	448,673	442	28	31	73	2
Other Corporate Clients	987,845	921,609	5,046	501	249	446	59,994
Retail	1,713,930	1,610,104	10,963	1,560	1,451	3,893	85,958
Total	**3,151,023**	**2,980,386**	**16,451**	**2,089**	**1,731**	**4,412**	**145,954**
31 December 2022							
Government	465,191	464,822	369	-	-	-	-
Other Corporate Clients	687,799	600,168	4,184	91	128	229	82,998
Retail	1,159,065	1,074,904	1,399	1,137	1,255	2,666	77,705
Total	**2,312,055**	**2,139,894**	**5,952**	**1,228**	**1,383**	**2,895**	**160,703**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.2. Assets Exposed to Credit Risk (continued)

The gross amount of fully recoverable placements, where a payment delay of more than 90 days has not been established and no impairment allowance is made on an individual basis at the date of preparation of the financial statements and the coverage of the relevant collateral at its fair value, expressed as a percentage of net loans is as follows:

(a) Stage 1 – expected credit losses in 12 months (risk category A1)

Group 2023 EUR '000	Government Units	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets measured at Amortized cost**	**Giro Account with CNB and Other Banks**	**Fees Receivables**
Gross Placements	**444,540**	**660,474**	**696,187**	**15,083**	**1,531**	**592,466**	**2,410,281**	**3,709**	**856,978**	**2,967,039**	**2,626**
Expected Portfolio Based Losses	(1,204)	(9,263)	(1,456)	(47)	(22)	(4,593)	**(16,585)**	**(55)**	**(1,354)**	**(20)**	**(44)**
Net Placements	**443,336**	**651,211**	**694,731**	**15,036**	**1,509**	**587,873**	**2,393,696**	**3,654**	**855,624**	**2,967,019**	**2,582**
Collateral Value	6,889	719,894	635,975	14,998	54	14,885	**1,392,695**	**-**	**-**	**-**	**-**
Collateral Coverage (%)	**1.55**	**110.55**	**91.54**	**99.75**	**3.58**	**2.53**	**58.18**	**-**	**-**	**-**	**-**

Group 2022 EUR '000	Government Units	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets measured at Amortized cost**	**Giro Account with CNB and Other Banks**	**Fees Receivables**
Gross Placements	263,112	957,976	583,097	9,703	18,944	826,919	**2,659,751**	**28,275**	**787,119**	**1,472,087**	**1,646**
Expected Portfolio Based Losses	(2,332)	(8,492)	(5,169)	(86)	(168)	(7,331)	**(23,578)**	**(168)**	**(1,288)**	**-**	**(33)**
Net Placements	**260,780**	**949,484**	**577,928**	**9,617**	**18,776**	**819,588**	**2,636,173**	**28,107**	**785,831**	**1,472,087**	**1,613**
Collateral Value	8	667,708	493,600	8,661	71	139,440	**1,309,488**	-	-	-	-
Collateral Coverage (%)	**-**	**70.32**	**85.41**	**90.06**	**0.38**	**17.01**	**49.67**	**-**	**-**	**-**	**-**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.2. Assets Exposed to Credit Risk (continued)

(a) Stage 1 – expected credit losses in 12 months (risk category A1)

Bank 2023 EUR '000	Government Units	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets measured at Amortized cost**	**Giro Account with CNB and Other Banks**	**Fees Receivables**
Gross Placements	**444,540**	**660,474**	**696,187**	**15,083**	**1,531**	**592,466**	**2,410,281**	**3,709**	**856,978**	**2,967,032**	**2,550**
Expected Portfolio Based Losses	(1,204)	(9,263)	(1,456)	(47)	(22)	(4,593)	**(16,585)**	(55)	(1,354)	(20)	(44)
Net Placements	**443,336**	**651,211**	**694,731**	**15,036**	**1,509**	**587,873**	**2,393,696**	**3,654**	**855,624**	**2,967,012**	**2,506**
Collateral Value	6,889	719,894	635,975	14,998	54	14,885	**1,392,695**	-	-	-	-
Collateral Coverage (%)	**1.55**	**110.55**	**91.54**	**99.75**	**3.58**	**2.53**	**58.18**	**-**	**-**	**-**	**-**

Bank 2022 EUR '000	Government Units	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets measured at Amortized cost**	**Giro Account with CNB and Other Banks**	**Fees Receivables**
Gross Placements	**257,011**	**664,583**	**574,862**	**8,688**	**12,626**	**309,086**	**1,826,856**	**266,094**	**713,439**	**1,316,539**	**1,556**
Expected Portfolio Based Losses	(2,237)	(5,782)	(5,001)	(76)	(110)	(2,688)	**(15,894)**	(1,345)	(1,205)	-	(33)
Net Placements	**254,774**	**658,801**	**569,861**	**8,612**	**12,516**	**306,398**	**1,810,962**	**264,749**	**712,234**	**1,316,539**	**1,523**
Collateral Value	8	474,121	485,505	7,645	54	10,587	**977,921**	-	-	-	-
Collateral Coverage (%)	**-**	**71.97**	**85.20**	**88.78**	**0.43**	**3.46**	**54.00**	**-**	**-**	**-**	**-**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.2. Assets Exposed to Credit Risk (continued)

(b) Stage 2 – lifetime expected credit losses (risk category A2)

The gross balance and the coverage of those assets with collateral at fair value, presented as a percentage of net placements is as follows:

Group 2023 EUR '000	Government Units	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total**	Financial Assets measured at Amortized cost	Fees Receivables
Gross Placements	**1,804**	**195,203**	**87,240**	**3,122**	**215**	**187,340**	**474,924**	**250**	**210**
Expected Portfolio Based Losses	(32)	(9,603)	(6,870)	(171)	(18)	(15,050)	**(31,744)**	(17)	(9)
Net Placements	**1,772**	**185,600**	**80,370**	**2,951**	**197**	**172,290**	**443,180**	**233**	**201**
Collateral Value	-	161,304	81,568	3,084	1	5,940	**251,897**	-	-
Collateral Coverage (%)	**-**	**86.91**	**101.49**	**104.51**	**0.51**	**3.45**	**56.84**	**-**	**-**

Group 2022 EUR '000	Government Units	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total**	Financial Assets measured at Amortized cost	Fees Receivables
Gross Placements	**1,531**	**171,824**	**56,349**	**1,313**	**4,521**	**149,802**	**385,340**	**10,757**	**146**
Expected Portfolio Based Losses	(118)	(13,236)	(4,340)	(101)	(348)	(11,540)	**(29,683)**	(15)	-
Net Placements	**1,413**	**158,588**	**52,009**	**1,212**	**4,173**	**138,262**	**355,657**	**10,742**	**146**
Collateral Value	1	107,986	50,075	1,072	3	19,908	**179,045**	-	-
Collateral Coverage (%)	**0.05**	**68.09**	**96.28**	**88.45**	**0.06**	**14.4**	**50.34**	**-**	**-**

Bank 2023 EUR '000	Government Units	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total**	Financial Assets measured at Amortized cost	Fees Receivables
Gross Placements	**1,804**	**195,203**	**87,240**	**3,122**	**215**	**187,340**	**474,924**	**250**	**210**
Expected Portfolio Based Losses	(32)	(9,603)	(6,870)	(171)	(18)	(15,050)	**(31,744)**	(17)	(9)
Net Placements	**1,772**	**185,600**	**80,370**	**2,951**	**197**	**172,290**	**443,180**	**233**	**201**
Collateral Value	-	161,304	81,568	3,084	1	5,940	**251,897**	-	-
Collateral Coverage (%)	**-**	**86.91**	**101.49**	**104.51**	**0.51**	**3.45**	**56.84**	**-**	**-**

Bank 2022 EUR '000	Government Units	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total**	Financial Assets measured at Amortized cost	Fees Receivables
Gross Placements	**1,563**	**133,923**	**55,407**	**1,136**	**3,086**	**70,233**	**265,348**	**10,757**	**146**
Expected Portfolio Based Losses	(104)	(8,904)	(3,684)	(76)	(205)	(4,668)	**(17,641)**	(15)	-
Net Placements	**1,459**	**125,019**	**51,723**	**1,060**	**2,881**	**65,565**	**247,707**	**10,742**	**146**
Collateral Value	1	82,997	49,158	895	1	2,851	**135,902**	-	-
Collateral Coverage (%)	**0.05**	**66.39**	**95.04**	**84.38**	**-**	**4.35**	**54.86**	**-**	**-**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.2. Assets Exposed to Credit Risk (continued)

(c) Stage 3 – default status (risk categories B and C)

Tables below show the amount of loans with expected credit losses, as well as coverage of these placements by corresponding collateral at fair value in percentage and in relation to net placements as following:

Group
2023
EUR '000

	Loans to Customers							
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total**	**Loans and Receivables from Banks**	**Fees Receivables**
Gross Placements	**70,950**	**10,104**	**7,551**	**714**	**176,499**	**265,818**	**196**	**860**
Total expected losses	(37,529)	(4,128)	(7,023)	(480)	(143,598)	**(192,758)**	(196)	(772)
Net Placements	**33,421**	**5,976**	**528**	**234**	**32,901**	**73,060**	**-**	**88**
Collateral Value	72,117	9,467	4,610	-	2,097	**88,291**	-	-
Collateral Coverage (%)	**215.78**	**158.42**	**873.11**	**-**	**6.37**	**120.85**	**-**	**-**

Group
2022
EUR '000

	Loans to Customers							
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total**	**Loans and Receivables from Banks**	**Fees Receivables**
Gross Placements	**125,111**	**7,965**	**10,135**	**4,093**	**137,023**	**284,327**	**66**	**1,259**
Total expected losses	(91,117)	(2,417)	(9,402)	(2,706)	(108,696)	**(214,338)**	(66)	(1,202)
Net Placements	**33,994**	**5,548**	**733**	**1,387**	**28,327**	**69,989**	**-**	**57**
Collateral Value	60,120	6,048	2,294	4	6,963	**75,429**	-	-
Collateral Coverage (%)	**176.85**	**109.00**	**313.17**	**0.31**	**24.58**	**107.77**	**-**	**-**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.2. Assets Exposed to Credit Risk (continued)

Bank
2023
EUR '000

	Loans to Customers							
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total**	**Loans and Receivables from Banks**	**Fees Receivables**
Gross Placements	**70,950**	**10,104**	**7,551**	**714**	**176,499**	**265,818**	**196**	**860**
Total expected losses	(37,529)	(4,128)	(7,023)	(480)	(143,598)	**(192,758)**	(196)	(772)
Net Placements	**33,421**	**5,976**	**528**	**234**	**32,901**	**73,060**	**-**	**88**
Collateral Value	72,117	9,467	4,610	-	2,097	**88,291**	-	-
Collateral Coverage (%)	**215.78**	**158.42**	**873.11**	**-**	**6.37**	**120.85**	**-**	**-**

Bank
2022
EUR '000

	Loans to Customers							
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total**	**Loans and Receivables from Banks**	**Fees Receivables**
Gross Placements	**118,031**	**7,500**	**10,018**	**2,818**	**81,484**	**219,851**	**66**	**1,259**
Total expected losses	(86,892)	(2,200)	(9,367)	(2,407)	(70,850)	**(171,716)**	(66)	(1,202)
Net Placements	**31,139**	**5,300**	**651**	**411**	**10,634**	**48,135**	**-**	**57**
Collateral Value	55,947	5,668	2,178	-	1,917	**65,710**	-	-
Collateral Coverage (%)	**179.66**	**106.95**	**334.52**	**-**	**18.03**	**136.51**	**-**	**-**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.2. Assets Exposed to Credit Risk (continued)

(d) Prolonged and rescheduled loans to customers

Prolongation of a loan is approved to customers because of common and current financing needs of their business activities.

Loans are most often rescheduled when borrowers' business operations are disrupted, with considerable changes made to the previously agreed lending terms and conditions.

Bank	2023 EUR '000	2022 EUR '000
Gross Loans to Customers		
Corporate	78,783	32,073
Retail	21,823	8,152
Total	**100,606**	**40,225**

2.1.3. Credit Risk Concentration by Industry

An analysis of the concentration of credit risk by industry is presented in the table below:

Group	2023 EUR '000	2022 EUR '000
Public administration, Defence and Compulsory Social Security	228,275	247,249
Manufacturing	247,420	254,121
Construction	254,040	256,010
Transportation and Storage	86,278	88,047
Wholesale and Retail Trade; Motor Vehicles and Motorcycles Repair	170,628	210,550
Professional, Scientific and Technical Activities	27,192	28,937
Accommodation and Food Service Activities	138,019	136,411
Agriculture, Forestry and Fishing	46,059	62,719
Information and Communication	15,240	18,174
Electricity and Gas Supply and Air-Conditioning	56,447	66,041
Arts, Entertainment and Recreation	9,800	13,021
Administrative and Auxiliary Services	13,511	11,556
Financial and insurance services	26,237	34,465
Real estate business	35,709	47,826
Other	74,512	64,838
Interest	7,726	5,674
Total Gross Corporate Loans	**1,437,093**	**1,545,639**
Retail Loans	1,693,849	1,763,764
Interest	20,081	20,015
Total Gross Retail Loans	**1,713,930**	**1,783,779**
Collateralized	1,732,884	1,563,961
Expected Credit Losses	(241,087)	(267,599)
Total	**2,909,936**	**3,061,819**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.3. Credit Risk Concentration by Industry (continued)

Bank	2023 EUR '000	2022 EUR '000
Public administration, Defence and Compulsory Social Security	228,275	240,615
Manufacturing	247,420	172,691
Construction	254,040	234,785
Transportation and Storage	86,278	88,047
Wholesale and Retail Trade; Motor Vehicles and Motorcycles Repair	170,628	107,505
Professional, Scientific and Technical Activities	27,192	12,164
Accommodation and Food Service Activities	138,019	76,177
Agriculture, Forestry and Fishing	46,059	43,137
Information and Communication	15,240	16,150
Electricity and Gas Supply and Air-Conditioning	56,447	50,344
Arts, Entertainment and Recreation	9,800	9,610
Administrative and Auxiliary Services	13,511	8,777
Financial and insurance services	26,237	33,378
Real estate business	35,709	27,403
Other	74,512	28,632
Interest	7,726	3,575
Total Gross Corporate Loans	**1,437,093**	**1,152,990**
Retail Loans	1,693,849	1,144,160
Interest	20,081	14,905
Total Gross Retail Loans	**1,713,930**	**1,159,065**
Collateralized	1,732,884	1,179,533
Expected Credit Losses	(241,087)	(205,251)
Total	**2,909,936**	**2,106,804**

2. RISK MANAGEMENT (continued)

2.2. Liquidity Risk

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

- liquidity funding risk (structural liquidity risk): risk that the Bank will not be able to meet efficiently its expected and unexpected present and future cash and collateral requirements without impacting its day-to-day operations or its own financial result,
- market liquidity risk, risk that the Bank will not be able to offset its positions or liquidate positions at market price due to a market disturbance or the market being insufficiently deep.

The Bank manages liquidity risk in accordance with the legal and regulatory requirements. In addition to those requirements, liquidity risk management is governed by the following internal regulations:

- Risk Management Policy,
- Liquidity Risk Management Manual,
- Risk appetite.

The system for managing liquidity risk, in line with defined polices, includes:

- risk profile, estimation and measurement of liquidity risk exposure,
- setting liquidity risk exposure limits during defined periods including intradaily,
- ensure liquidity risk management in EUR and a total of all currencies in the Bank's book,
- ensure that an adequate level of liquidity buffers is maintained,
- include appropriate allocation mechanisms.

Liquidity risk management is realized through:

- operational management of daily liquidity,
- operational management of short-term liquidity,
- structural liquidity management.

Operational management of daily and short-term liquidity is performed through:

- maintenance, planning and projecting coverage coefficient (LCR) within prescribed limit

Structural liquidity management is performed through:

- maintaining positions in accordance with liquidity risk exposure limits,
- maintaining of Net Stable Funding Ratio (NSFR) in accordance with defined limits,
- diversification of sources of funding.

Strategic Risks and Risk Control Division is reporting monthly about liquidity risk and liquidity risk exposure limits during sessions of Assets and Liabilities Management Committee.

The Bank submits to the Croatian National Bank a monthly regulatory report on liquidity coverage. The prescribed quantitative requirements include: the amount of liquid assets (C72), the amount of potential outflows (C73), the amount of potential inflows (C74) and the calculation of liquidity coverage (C76).

2. RISK MANAGEMENT (continued)
2.2. Liquidity Risk (continued)

The Bank maintained all positions for which the prescribed regulatory limits were set within 2023 within the prescribed regulatory limits.

The Financial Markets Sector prepares a monthly inflow and outflow plan for Board meetings.

Responsibility for liquidity risk management rests with the Bank's Management Board. The Bank's Asset and Liability Committee is authorized by the Management Board to manage liquidity risk. The Committee makes decisions and conclusions regarding liquidity management in its sessions. Each sector to which these decisions and conclusions made by the committee relate, is obliged to enact them.

As a part of liquidity risk management system, authority, responsibilities and procedures in conditions of liquidity crisis are determined separately.

The Bank prescribes and conducts stress tests of its liquidity. The Strategic Risk and Risk Control Division conducts stress tests taking into account Bank-specific factors (internal factors) and market factors (external factors). Stress resilience tests are conducted over the liquidity coverage ratio.

The net stable sources of financing ratio (NSFR), which is an indicator of the Bank's structural liquidity, as at 31 December 2023 is 223% (2022: 184%) while NSFR for the Group 2022 was 164%. At the same time, the liquidity coverage ratio (LCR) is 255% (2022: 181%) while on consolidated level it amounted to 175%.

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2.2.1. Maturity Analysis

A maturity analysis of assets and liabilities, as well as equity, of the Bank and Group, based on their remaining contractual maturity, except for financial assets at fair value through profit and loss that are analyzed as current based on their classification and the Bank's and Group's trading intention, as at December 31, 2023 and December 31, 2022, is presented in the tables below.

Although significant negligent maturity mismatches have been reported in the first analyzed periods, the Bank does not expect the outflow of deposits in contractual terms in accordance with its own historical experience and knowledge of the customers.

Non-maturity assets that relate to investments in subsidiaries, real estate and equipment, investment property and intangible assets are presented in the maturity category over 3 years. Financial assets related to investments in stocks and mutual funds, also without maturity, are presented in the maturity category up to 30 days.

2. RISK MANAGEMENT (continued)
2.2. Liquidity Risk (continued)
2.2.1. Maturity Analysis (continued)

Group 2023 EUR '000	0-30 days	31-90 days	91-360 days	1 to 3 years	over 3 years	Total
ASSETS						
Cash and Amounts Due from Banks	3,103,821	-	-	-	-	**3,103,821**
Loans and Receivables from Banks	3,654	-	-	-	-	**3,654**
Financial Assets at Fair Value through P&L	15,797	45	1,912	8,821	28,831	**55,406**
Financial Assets at FV through OCI	4,394	-	-	-	-	**4,394**
Financial Assets at Amortized Cost	2,881	1,248	163,681	76,059	611,988	**855,857**
Loans to and Receivables from Customers	169,192	147,533	483,295	683,668	1,426,248	**2,909,936**
Deferred tax assets, net	-	-	5,317	-	-	**5,317**
Tax Prepayment	29	-	-	-	-	**29**
Other Assets	26,758	1,739	-	2,968	-	**31,465**
Properties, Equipment and assets with the right of use	-	-	-	-	55,242	**55,242**
Investment Properties	-	-	-	-	5,872	**5,872**
Intangible Assets	-	-	-	-	14,624	**14,624**
TOTAL ASSETS	**3,326,526**	**150,565**	**654,205**	**771,516**	**2,142,805**	**7,045,617**
LIABILITIES						
Financial Liabilities at FV through P&L	16	-	-	-	-	**16**
Deposits from Banks	27,384	-	-	-	24,001	**51,385**
Customer Deposits	4,033,606	156,703	1,484,573	175,115	22,044	**5,872,041**
Borrowings	40,310	4,824	25,010	290,146	124,000	**484,290**
Provisions for Liabilities and Expenses	36,556	1,331	1,742	853	1,099	**41,581**
Tax Liabilities	7,508	-	-	-	-	**7,508**
Other Liabilities	55,267	-	-	-	-	**55,267**
Total Equity and Reserves	-	-	-	-	533,529	**533,529**
TOTAL LIABILITIES, EQUITY AND RESERVES	**4,200,647**	**162,858**	**1,511,325**	**466,114**	**704,673**	**7,045,617**
MATURITY GAP	**(874,121)**	**(12,293)**	**(857,120)**	**305,402**	**1,438,132**	**-**
CUMMULATIVE MATURITY GAP	**(874,121)**	**(886,414)**	**(1,743,534)**	**(1,438,132)**	**-**	**-**
OFF-BALANCE	***220,485***	***79,426***	***190,921***	***71,246***	***123,310***	***685,388***
Derivatives	*100,701*	*-*	*-*	*-*	*-*	***100,701***
Off-Balance Contingent Liabilities	*119,784*	*79,426*	*190,921*	*71,246*	*123,310*	***584,687***

2. RISK MANAGEMENT (continued)
2.2. Liquidity Risk (continued)
2.2.1. Maturity Analysis (continued)

Group 2022 EUR '000	0-30 days	31-90 days	91-360 days	1 to 3 years	over 3 years	Total
ASSETS						
Cash and Amounts Due from Banks	1,472,087	-	-	-	-	**1,472,087**
Loans and Receivables from Banks	27,955	108	-	-	44	**28,107**
Financial Assets at Fair Value through P&L	66,916	592	23	-	-	**67,531**
Financial Assets at FV through OCI	-	-	-	-	3,808	**3,808**
Financial Assets at Amortized Cost	141	13,370	178,613	113,061	491,388	**796,573**
Loans to and Receivables from Customers	192,578	118,475	411,662	817,226	1,521,878	**3,061,819**
Assets held for sale	6,836	-	-	-	2,289	**9,125**
Tax Prepayment	-	-	3	-	-	**3**
Other Assets	20,514	1,512	1,975	-	-	**24,001**
Properties, Equipment and assets with the right of use	-	-	-	-	52,680	**52,680**
Investment Properties	-	-	-	-	6,322	**6,322**
Intangible Assets	-	-	-	-	18,023	**18,023**
TOTAL ASSETS	**1,787,027**	**134,057**	**592,276**	**930,287**	**2,096,432**	**5,540,079**
LIABILITIES						
Financial Liabilities at FV through P&L	-	31	-	-	-	**31**
Deposits from Banks	24,668	1	-	25,000	-	**49,669**
Customer Deposits	3,710,908	168,968	526,674	162,522	22,439	**4,591,511**
Borrowings	2,347	6,466	33,382	157,017	136,250	**335,462**
Provisions for Liabilities and Expenses	14,806	901	9,538	26,097	1,514	**52,856**
Tax Liabilities	153	-	67	-	-	**220**
Other Liabilities	38,325	4,076	2,603	4,354	4,073	**53,431**
Total Equity and Reserves	-	-	-	-	456,899	**456,899**
TOTAL LIABILITIES, EQUITY AND RESERVES	**3,791,207**	**180,443**	**572,264**	**374,990**	**621,175**	**5,540,079**
MATURITY GAP	**(2,004,180)**	**(46,386)**	**20,012**	**555,297**	**1,475,257**	**-**
CUMMULATIVE MATURITY GAP	**(2,004,180)**	**(2,050,566)**	**(2,030,554)**	**(1,475,257)**	**-**	**-**
OFF-BALANCE	***80,266***	***131,486***	***310,235***	***77,859***	***166,060***	***765,906***
Derivatives	-	*68,371*	-	-	-	***68,371***
Off-Balance Contingent Liabilities	*80,266*	*63,115*	*310,235*	*77,859*	*166,060*	***697,535***

2. RISK MANAGEMENT (continued)
2.2. Liquidity Risk (continued)
2.2.1. Maturity Analysis (continued)

Bank 2023 EUR '000	0-30 days	31-90 days	91-360 days	1 to 3 years	over 3 years	Total
ASSETS						
Cash and Amounts Due from Banks	3,103,814	-	-	-	-	**3,103,814**
Loans and Receivables from Banks	3,654	-	-	-	-	**3,654**
Financial Assets at Fair Value through P&L	15,691	45	1,912	8,821	28,831	**55,300**
Financial Assets at FV through OCI	4,394	-	-	-	-	**4,394**
Financial Assets at Amortized Cost	2,881	1,248	163,681	76,059	611,988	**855,857**
Loans and Receivables from Customers	169,192	147,533	483,295	683,668	1,426,248	**2,909,936**
Investments in subsidiaries	-	-	-	-	1,296	**1,296**
Deferred tax assets, net	-	-	5,317	-	-	**5,317**
Other Assets	26,605	1,739	-	2,962	-	**31,306**
Properties, Equipment and assets with the right of use	-	-	-	-	55,105	**55,105**
Investment Properties	-	-	-	-	5,468	**5,468**
Intangible Assets	-	-	-	-	14,606	**14,606**
TOTAL ASSETS	**3,326,231**	**150,565**	**654,205**	**771,510**	**2,143,542**	**7,046,053**
LIABILITIES						
Financial Liabilities at FV through P&L	16	-	-	-	-	**16**
Deposits from Banks	27,384	-	-	-	24,001	**51,385**
Customer Deposits	4,034,061	156,703	1,484,573	175,115	22,044	**5,872,496**
Borrowings	40,310	4,824	25,010	290,146	124,000	**484,290**
Provisions for Liabilities and Expenses	36,548	1,331	1,742	853	1,098	**41,572**
Tax Liabilities	7,508	-	-	-	-	**7,508**
Other Liabilities	55,049	-	-	-	-	**55,049**
Total Equity and Reserves	-	-	-	-	533,737	**533,737**
TOTAL LIABILITIES, EQUITY AND RESERVES	**4,200,876**	**162,858**	**1,511,325**	**466,114**	**704,880**	**7,046,053**
MATURITY GAP	**(874,645)**	**(12,293)**	**(857,120)**	**305,396**	**1,438,662**	**-**
CUMMULATIVE MATURITY GAP	***(874,645)***	***(886,938)***	***(1,744,058)***	***(1,438,662)***	***-***	***-***
OFF-BALANCE	***220,485***	***79,426***	***190,921***	***71,246***	***123,310***	***685,388***
Derivatives	*100,701*	*-*	*-*	*-*	*-*	***100,701***
Off-Balance Contingent Liabilities	*119,784*	*79,426*	*190,921*	*71,246*	*123,310*	***584,687***

2. RISK MANAGEMENT (continued)
2.2. Liquidity Risk (continued)
2.2.1. Maturity Analysis (continued)

Bank **2022** **EUR '000**	**0-30 days**	**31-90 days**	**91-360 days**	**1 to 3 years**	**over 3 years**	**Total**
ASSETS						
Cash and Amounts Due from Banks	1,316,539	-	-	-	-	**1,316,539**
Loans and Receivables from Banks	264,597	108	-	-	44	**264,749**
Financial Assets at Fair Value through P&L	55,030	592	-	-	-	**55,622**
Financial Assets at FV through OCI	-	-	-	-	3,789	**3,789**
Financial Assets at Amortized Cost	-	12,914	160,518	86,973	462,571	**722,976**
Loans and Receivables from Customers	133,274	60,271	272,296	594,004	1,046,959	**2,106,804**
Investments in subsidiaries	-	-	-	-	13,419	**13,419**
Deferred tax assets	-	-	-	-	2,992	**2,992**
Other Assets	17,556	1,506	1,945	-	-	**21,007**
Properties, Equipment and assets with the right of use	-	-	-	-	39,018	**39,018**
Investment Properties	-	-	-	-	5,887	**5,887**
Intangible Assets	-	-	-	-	10,405	**10,405**
TOTAL ASSETS	**1,786,996**	**75,391**	**434,759**	**680,977**	**1,585,084**	**4,563,207**
LIABILITIES						
Financial Liabilities at FV through P&L	-	31	-	-	-	**31**
Deposits from Banks	3,826	1	-	25,000	-	**28,827**
Customer Deposits	3,385,545	103,195	253,767	136,375	16,029	**3,894,911**
Borrowings	148	3,949	14,403	111,673	107,360	**237,533**
Provisions for Liabilities and Expenses	5,859	203	7,056	5,093	860	**19,071**
Other Liabilities	20,853	4,051	2,523	4,341	4,071	**35,839**
Total Equity and Reserves	-	-	-	-	346,995	**346,995**
TOTAL LIABILITIES, EQUITY AND RESERVES	**3,416,231**	**111,430**	**277,749**	**282,482**	**475,315**	**4,563,207**
MATURITY GAP	**(1,629,235)**	**(36,039)**	**157,010**	**398,495**	**1,109,769**	**-**
CUMMULATIVE MATURITY GAP	**(1,629,235)**	**(1,665,274)**	**(1,508,264)**	**(1,109,769)**	**-**	**-**
OFF-BALANCE	***57,390***	***113,339***	***218,281***	***44,147***	***111,503***	***544,659***
Derivatives	-	*68,371*	-	-	-	***68,371***
Off-Balance Contingent Liabilities	*57,390*	*44,967*	*218,281*	*44,147*	*111,503*	***476,288***

2.3. Market Risk

The exposure to market risk occurs in balance sheet and off-balance sheet positions recognized at market (fair) value:

- financial assets at fair value through profit and loss account,
- financial assets at fair value through other comprehensive income,
- positions denominated in foreign currency (including placements and liabilities linked to foreign currencies).

All trading instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous (i.e. impaired). Trading financial instruments are recognized at fair value, and all changes in market conditions directly affect trading income. The Bank manages their use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed through acquisitions or disposals of financial instruments in accordance with the risk limits set in Market Risk Management Guidelines and the Management Board's Decision on the limits of exposure to market risks.

Market risk management of the Bank is conducted in accordance with regulatory requirements, as is defined by internal policies and procedures regarding market risks which are regularly revised by the Risk Management Division.

Strategic Risks and Risk Control Division daily calculates market risk exposure figures, usage of exposure to market risk limits and capital requirements for exposure to market risks.

In the measurement of the market risk exposure, the Bank relies on regulations set out by the Croatian National Bank and monitors:

- Capital requirement calculated by the standard method calculated in accordance with the Directive (EU) no. 575/2013 of European Parliament and Council,
- Value at Risk (VaR) which represents the maximum potential loss that the Bank could incur as a result of changes in market risk factors (interest rates, exchange rate and share prices) for a period of retaining the same position for 10 days at statistical accuracy of 99%. VaR is calculated at the end of the day and does not include daily exposure arising from a change in position. To calculate VaR, a database containing 250 historical figures is used.

In addition, the Bank internally follows:

- measure of interest sensitivity (BPV limits), i.e. change in price with respect to change in yield by a basis point,
- measure of the limit in relation to the nominal amount.

The Strategic Risk and Risk Control Division reports daily on the utilization of market risk exposure limits to the Management Board, the Financial Markets Division, the Financial Management Division and the Assets and Liabilities Management Office, and monthly to the Assets and Liabilities Management Committee.

2. RISK MANAGEMENT (continued)
2.3. Market Risk (continued)

a) Financial assets at fair value through profit and loss account

The table below shows the movements in those measures at December 31, 2023 and December 31, 2022.

	Group		Bank	
2023	**Position EUR '000**	**VaR**	**Position EUR '000**	**VaR**
FX Risk	1,218	(24)	1,218	(24)
Debt Securities Position Risk	39,849	(867)	39,849	(867)
Equity Securities Position Risk	3,543	(195)	3,543	(195)
Investment Fund Position Risk	10,806	(236)	10,806	(236)
Correlation Effect	-	436	-	436
Market Risk		**(886)**		**(886)**
2022	**Position EUR '000**	**VaR**	**Position EUR '000**	**VaR**
FX Risk	81,133	(375)	4,482	(51)
Debt Securities Position Risk	54,069	(882)	42,160	(814)
Equity Securities Position Risk	3,307	(186)	3,307	(186)
Investment Fund Position Risk	9,198	(441)	9,198	(441)
Correlation Effect	-	689	-	458
Market Risk		**(1,196)**		**(1,034)**

b) Financial assets at fair value through other comprehensive income

As of December 31, 2023, the Bank had no financial assets valued at fair value through other comprehensive income in its portfolio.

2.4. Interest Rate Risk in the Bank's Non-Trading Book

Interest rate risk in the Bank’s non-trading book is a risk which can have a negative effect on economic value of the Bank’s book and earnings (net interest income), because of variation of market interest rates.

The Bank manages interest rate risk in its non-trading book in accordance with the legal and regulatory requirements. In line with the Croatian National Bank’s Decision on the Management of Interest rate risk in the Bank’s and Group’s non-trading book, it is required to submit quarterly reports to the Croatian National Bank about the interest rate risk in the bank’s non-trading book.

Apart from those regulations, managing interest rate risk in the Bank’s non-trading book is regulated by:

- Risk Management Policy, and
- Manual on Managing Interest Rate Risk in the Bank's non-trading book.

The Manual defines the management process, evaluation methods and measures of exposure to interest rate risk in the Bank's non-trading book, as well as exposure limits, manner and frequency of reporting about the Bank's exposure to that The Bank and Group assesses interest rate risk in the bank’s non-trading book by observing this risk from two perspectives:

- Perspective of economic value: a potential market value decrease of the Bank's non-trading book because of interest rate movements in the market,
- Profit perspective: a potential decrease of net interest income because of movements in market interest rates.

Perspective of Economic Value of Capital

When assessing the exposure to interest rate risk arising from transactions in the book of positions that are not traded from the perspective of the economic value of capital, the Bank allocates interest-sensitive positions of the bank's book in time zones, distinguishing positions with fixed interest rate, variable interest rate and interest rate which can be changed by the decision of the Management Board (administrative interest rate) and estimates the change in the market value of the bank's book due to the simulated change in interest rates. The bank calculates the ratio of the change in the economic value of the bank's book and regulatory capital and maintains it in the ratios of the regulatory requirement. The change in the economic value of the Bank's book as at 31 December 2023 for the Bank and Group amounted to EUR 17,595 thousand or 3.49% of regulatory capital (2022: EUR 4,091 thousand or 1.17% of regulatory capital and for the Group EUR 39,146 thousand, or 8.08% of regulatory capital).

In addition to the above, when assessing the exposure to interest rate risk arising from transactions that are kept in the book of non-traded positions from the perspective of the economic value of the capital, the Bank also assesses it based on the value at risk (VaR) of the portfolio.

Profit Perspective

The prospect of earnings includes a potential decrease in net interest income in case of changes in interest rates on the market. When calculating interest rate risk from a profit perspective, the Bank taking into account the potential impact of changes in interest rates from a profit perspective in a time period of up to 3 years and assuming a constant balance sheet, monitors the maximum impact on net interest income due to a sudden parallel shift of the yield curve by +/- 200 basis points. The potential change in net interest income at the end of 2023 for the Bank amounts to EUR 25,699 thousand (2022: EUR 9,160 thousand on consolidated level).

Likewise, the Bank conducts a minimum yearly test of stress resistance based on more significant intensity of changes in interest rates. Strategic Risks and Risk Control Division reports to the Bank for the Management of Interest Rate Risk in the Bank's Book of Assets and Liabilities Management.

2.5. Foreign Exchange Risk

The Bank and the Group are exposed to FX 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 legislation and internally set limits, for each currency and for the total balance sheet denominated in or linked to foreign currency.

The Bank manages their currency risk by setting principles and limits for foreign currency exposures and monitoring exposures against these limits. The Bank directs their business activities towards trying to minimize the gap between assets and liabilities denominated in or linked to a foreign currency and maintaining daily business activities within the internal and regulatory limits.

Considering the introduction of the euro as the official currency from 1 January 2023 the Bank and the Group are no longer exposed to the risk of changes in the euro exchange rate. Thus, the foreign exchange risk has almost completely disappeared.

The amounts of total assets and liabilities of the Bank and the Group as at 31 December 2023 and 31 December 2022 in domestic and foreign currencies (2022: amounts denominated in HRK with a foreign currency clause refer mainly to the euro) are presented in the tables below.

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Group
2023

EUR '000	Euro	Foreign currencies	Total
ASSETS			
Cash and Amounts Due from Banks	3,084,972	18,849	**3,103,821**
Loans and Receivables from Banks	463	3,191	**3,654**
Financial Assets at Fair Value through P&L	55,406	-	**55,406**
Financial Assets at Fair Value through OCI	500	3,894	**4,394**
Financial Assets at Amortized Cost	855,857	-	**855,857**
Loans to and Receivables from Customers	2,906,784	3,152	**2,909,936**
Deferred tax assets, net	5,317	-	**5,317**
Tax Prepayment	29	-	**29**
Other Assets	31,469	(4)	**31,465**
Properties, Equipment and assets with the right of use	55,242	-	**55,242**
Investment Properties	5,872	-	**5,872**
Intangible Assets	14,619	5	**14,624**
TOTAL ASSETS	**7,016,530**	**29,087**	**7,045,617**
LIABILITIES			
Financial Liabilities at Fair Value through P&L	16	-	**16**
Deposits from Banks	51,385	-	**51,385**
Customer Deposits	5,764,192	107,849	**5,872,041**
Borrowings	484,290	-	**484,290**
Provisions for Liabilities and Expenses	41,566	15	**41,581**
Income tax liability	7,508	-	**7,508**
Other Liabilities	51,394	3,873	**55,267**
Total Equity and reserves	533,529	-	**533,529**
TOTAL LIABILITIES, EQUITY AND RESERVES	**6,933,880**	**111,737**	**7,045,617**
NET FOREIGN EXCHANGE POSITION	**82,650**	**(82,650)**	**-**

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Group 2022 EUR '000	HRK	HRK Linked to Foreign Currencies	EUR	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	1,379,765	-	76,395	15,927	**1,472,087**
Mandatory Reserve with the Croatian National Bank	11,240	-	474	16,393	**28,107**
Loans and Receivables from Banks	50,610	16,682	191	48	**67,531**
Financial Assets at Fair Value through P&L	565	-	18	3,225	**3,808**
Financial Assets at Fair Value through OCI	319,798	184,248	292,527	-	**796,573**
Financial Assets at Amortized Cost	1,635,958	1,318,302	105,629	1,930	**3,061,819**
Loans to and Receivables from Customers	9,125	-	-	-	**9,125**
Tax Prepayment	3	-	-	-	**3**
Other Assets	21,551	-	2,443	7	**24,001**
Properties, Equipment and assets with the right of use	52,680	-	-	-	**52,680**
Investment Properties	6,322	-	-	-	**6,322**
Intangible Assets	18,023	-	-	-	**18,023**
TOTAL ASSETS	**3,505,640**	**1,519,232**	**477,677**	**37,530**	**5,540,079**
LIABILITIES					
Deposits from Banks	-	-	-	31	**31**
Customer Deposits	18,094	-	31,232	343	**49,669**
Borrowings	2,641,327	10,560	1,806,607	133,017	**4,591,511**
Provisions for Liabilities and Expenses	231,285	41,203	62,974	-	**335,462**
Deferred Tax Liabilities, net	52,856	-	-	-	**52,856**
Income tax liability	220	-	-	-	**220**
Other Liabilities	49,221	-	4,171	39	**53,431**
Total Equity	456,899	-	-	-	**456,899**
TOTAL LIABILITIES, EQUITY AND RESERVES	**3,449,902**	**51,763**	**1,904,984**	**133,430**	**5,540,079**
NET FOREIGN EXCHANGE POSITION	**55,738**	**1,467,469**	**(1,427,307)**	**(95,900)**	**-**

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Bank

2023 **EUR '000**	**Euro**	**Foreign currencies**	**Total**
ASSETS			
Cash and Amounts Due from Banks	3,084,965	18,849	**3,103,814**
Loans and Receivables from Banks	463	3,191	**3,654**
Financial Assets at Fair Value through P&L	55,300	-	**55,300**
Financial Assets at FV through OCI	500	3,894	**4,394**
Financial Assets at Amortized Cost	855,857	-	**855,857**
Loans and Receivables from Customers	2,906,784	3,152	**2,909,936**
Investments in Subsidiaries	1,295	-	**1,295**
Deferred tax assets, net	5,317	-	**5,317**
Other Assets	31,311	(4)	**31,307**
Property and Equipment	55,105	-	**55,105**
Investment Properties	5,468	-	**5,468**
Intangible Assets	14,601	5	**14,606**
TOTAL ASSETS	**7,016,966**	**29,087**	**7,046,053**
LIABILITIES			
Financial Liabilities at Fair Value through P&L	16	-	**16**
Deposits from Banks	51,385	-	**51,385**
Customer Deposits	5,764,647	107,849	**5,872,496**
Borrowings	484,290	-	**484,290**
Provisions for Liabilities and Expenses	41,557	15	**41,572**
Income tax liability	7,508	-	**7,508**
Other Liabilities	51,176	3,873	**55,049**
Total Equity and reserves	533,737	-	**533,737**
TOTAL LIABILITIES, EQUITY AND RESERVES	**6,934,316**	**111,737**	**7,046,053**
NET FOREIGN EXCHANGE POSITION	**82,650**	**(82,650)**	**-**

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Bank 2022 EUR '000	HRK	HRK Linked to Foreign Currencies	EUR	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	1,259,386	-	43,366	13,787	**1,316,539**
Loans and Receivables from Banks	94,273	-	154,175	16,301	**264,749**
Financial Assets at Fair Value through P&L	38,701	16,682	191	48	**55,622**
Financial Assets at FV through OCI	546	-	18	3,225	**3,789**
Financial Assets at Amortized Cost	280,115	182,024	260,837	-	**722,976**
Loans and Receivables from Customers	1,253,599	809,614	41,661	1,930	**2,106,804**
Investments in Subsidiaries	13,419	-	-	-	**13,419**
Tax Prepayment	2,992	-	-	-	**2,992**
Other Assets	18,557	-	2,443	7	**21,007**
Property and Equipment	39,018	-	-	-	**39,018**
Investment Properties	5,887	-	-	-	**5,887**
Intangible Assets	10,405	-	-	-	**10,405**
TOTAL ASSETS	**3,016,898**	**1,008,320**	**502,691**	**35,298**	**4,563,207**
LIABILITIES					
Deposits from Banks	-	-	-	31	**31**
Customer Deposits	1,277	-	25,143	2,407	**28,827**
Borrowings	2,331,468	10,560	1,450,579	102,304	**3,894,911**
Provisions for Liabilities and Expenses	141,659	35,906	59,968	-	**237,533**
Deferred tax assets, net	19,071	-	-	-	**19,071**
Other Liabilities	32,885	-	2,954	-	**35,839**
Total Equity and Reserves	346,995	-	-	-	**346,995**
TOTAL LIABILITIES, EQUITY AND RESERVES	**2,873,355**	**46,466**	**1,538,644**	**104,742**	**4,563,207**
NET FOREIGN EXCHANGE POSITION	**143,543**	**961,854**	**(1,035,953)**	**(69,444)**	**-**

2.6. Operational Risk Management

Operational risk is inherent to all activities, processes, products and systems of the Bank. The Bank ensures appropriate operational risk management by applying procedures and a system of authorizations and responsibilities specified in detail in its internal by-laws, the Risk Management Policy and the Internal Operational Risk Management Manual as root documents. The operational risk management system has been established through appropriate bodies of the Bank and an efficient internal control system.

The Bank defines operational risk as a risk of an event which, therefore, exposes the Bank to financial losses, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk. Significant operational risk is a risk of an event resulting in significant loss because of operational risk.

In order to efficiently manage the overall exposure to operational risk, the Bank applies the following:

- Collecting and analysing internal data about operational risk events,
- Self-assessment of risks and controls,
- Assessment of information technology risk, and
- Business Impact Analysis of unavailability of key business processes.

The Bank assesses the outsourcing risk as an additional exposure to all significant risks arising from the fact that the Bank does not itself perform the outsourced activities, but rather that those activities are performed by external vendors; hence, the impact of outsourcing on the Bank’s risk profile is assessed.

The Bank assesses the impact of introducing a new product on the Bank's risk profile, which includes exposure to all significant risks.

For efficient operational risk management, the Bank has set up the Operational Risk Management Committee. Based on the reports on the Bank's exposure to operational risk, the Operational Risk Management Committee draws conclusions and makes decisions about appropriate measures necessary to undertake in order to overmaster the exposure to operational risk.

The Bank applies a standardized approach to calculating the capital requirement for operational risk.

2.7. Capital Management

The Bank manages capital in line with internal capital adequacy assessment (ICAAP). It establishes significant risks to which it is exposed or estimates that it may be exposed, calculate or estimate the required capital requirements for exposure to particular risks and establish the total required (internal) capital for the current and subsequent period in accordance with the business plan. In accordance with capital requirements so expressed, capital planning is carried out whereby items of available capital are considered exclusively to items recognized for the purpose of calculating the regulatory capital.

In planning capital needs it is necessary to consider capital adequacy, i.e. regulatory capital requirements for exposures to credit, market and operational risk.

2. RISK MANAGEMENT (continued)

2.7. Capital Management (continued)

Regulatory minimum rate of total capital adequacy prescribed by law on 31.12.2023 is 8 percent. The regulatory obligation to maintain the rate of protective layers of capital is prescribed for the rate of protective layer for capital preservation of 2.5 percent (2022: 2.5 percent), protective layer for structural systemic risk of 1.5 percent (2022: 1.5 percent) and a protective layer for systemically important credit institutions in the Republic of Croatia in the amount of 0.5 percent (2022: 0.5 percent) and a protective layer for the countercyclical systemic risk of the Republic of Croatia in the amount of 1.0 percent (2022: 0.0 percent). During 2023 and 2022, the Bank continuously fulfilled all regulatory capital requirements.

Below is an overview of regulatory capital movements for the Bank and the Group:

:

	Group		Bank	
	2023 EUR '000	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
REGULATORY CAPITAL				
Tier-1 Capital	504,565	451,408	504,565	344,641
Common Equity Tier-1 Capital	*504,565*	*451,408*	*504,565*	*344,641*
Tier-2 Capital	-	-	-	-
Total regulatory capital	**504,565**	**451,408**	**504,565**	**344,641**
Credit Risk Exposure Using Standardized Approach	1,900,116	2,068,513	1,900,116	1,236,737
Exposure to FX and Position Risk	40,853	56,843	40,853	36,994
Exposure to Operational risk	299,591	263,124	299,591	188,338
Exposure to Credit Value Adjustment Risk	521	278	521	278
Total Risk Exposure	**2,241,081**	**2,388,758**	**2,241,081**	**1,462,347**
Total Capital Adequacy Ratio	**22.51%**	**18.90%**	**22.51%**	**23.57%**

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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 existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Group's portfolio exposed to credit risk represents the major source of estimation uncertainty. This and other key sources of estimations 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.

Expected credit losses

The Group continuously monitors creditworthiness of its customers. In accordance with the requirements of the CNB, the need to reduce the value of the balance sheet and the provision for off-balance sheet exposure to credit risk is estimated quarterly for large exposures or monthly for a portfolio of exposures below EUR 150 thousand. Impairment losses are mainly recognized in relation to the net book value of loans to legal entities and households (presented in Note 10), and as provisions for liabilities and expenses arising from off-balance sheet exposures to customers, most often in the form of approved guarantees, letters of credit and approved unused loans (presented in notes 22 and 38). Impairment losses are also considered for credit exposure to banks and for other assets not carried at fair value and where the primary impairment risk is not a credit risk. Impairment policy of placements is explained in the note 2.1.1.

Following tables represent the summary of impairment losses of loans to and receivables from customers, as well as provisions for off-balance sheet exposures:

Group	Note	2023 EUR '000	2022 EUR '000
Expected Credit Losses of Loans to and Receivables from Customers	10	241,087	267,599
Provisions for Off-Balance Sheet Exposures	22	6,329	8,352
Total		**247,416**	**275,951**

Bank	Note	2023 EUR '000	2022 EUR '000
Expected Credit Losses on Loans to and Receivables from Customers	10	241,087	205,251
Provisions for Off-Balance Sheet Exposures	22	6,329	7,688
Total		**247,416**	**212,939**

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Loans and receivables from customers - impairment losses

The Group estimates creditworthiness of its customers and, in accordance with it, estimates impairment losses per balance sheet exposures and provisions for liabilities related to off-balance potential liabilities, whether exposures with no default status or exposure with default status, whereby relevant CNB regulations are taken into account which prescribe credit losses and is based on the International Financial Reporting Standard 9.

Expected credit losses policy is presented in detail in the note 2.1.1.

At the end of the year, gross value of impaired assets placed into risk categories B and C, as well as recognized impairment of these exposures, were as follows:

Group (EUR '000)	2023	2022
Gross Exposures	**266,678**	**285,652**
Impairment Loss	193,529	215,606
Impairment Rate	**72.57%**	**75.48%**

Bank (EUR '000)	2023	2022
Gross Exposures	**266,678**	**221,176**
Impairment Loss	193,529	172,984
Impairment Rate	**72.57%**	**78.21%**

Any additional increase in the impairment rate by one percentage point of gross exposure as at 31 December 2022 would result in an increase in expected credit losses for the Bank and the Group in amount of EUR 2,667 thousand (2022: Bank EUR 2,212 thousand and Group EUR 2,856 thousand).

Market Value of Pledged Property and Foreclosed Asset

As disclosed above (note 2.1.2 (c)), loans and receivables from customers include exposures with a book value of EUR 265,818 thousand (2022: Group EUR 284,327 thousand and Bank EUR 219,851 thousand) classified by the Group and the Bank as impaired due to the disadvantage of payment, which is secured by a pledge over real property, plant and equipment. In assessing the recoverability of pledges based on real estate in a pledge, the market value of the property in the collateral is reduced and reduced to the present value using the impairment factor and the collection deadlines in accordance with CNB regulation.

Provisions for Court Cases Initiated Against the Group

In calculating provisions for court, expenses the Group discounts expected future cash flows with respect to the liabilities using the CNB's discount rate.

The Group recognizes provisions as a result of legal proceedings started against the Group which are certain to result in an outflow of funds to settle claims against the Group and if the amounts can be reliably estimated. Provisions are recognized at the level of individual lawsuits filed against the Group and based on an internal legal assessment and consultation with law firms with which the Group cooperates. The management estimated the amount of provisions for unconverted and converted loans taking into account publicly available information, court verdicts and expert opinions of the law firm. Taking into account the current number of lawsuits filed against the Group and the time between the filing of the lawsuit and the pronouncement of the final judgment, the Group made a decision on the amount of the provision. The Group believes that the current level of provisions is sufficient to settle all claims arising from lawsuits related to CHF loans. If the number of lawsuits on CHF loans increased by 10%

compared to the current number of lawsuits filed against the Group, the provision level would increase by EUR 1.3 million, taking into account the currently expected probability of losing these disputes.

Please refer to Note 22 Provisions for Liabilities and Expenses for details regarding CHF loan litigations initiated against the Group.

The impact of the war in Ukraine and other war conflicts on business in 2023

The war in Ukraine is taking on the characteristics of a prolonged conflict, which means that the impact on business is less than in the previous year, but it still dominantly defines the overall international business environment. The fundamental direction of the impact of this risk on the Bank's operations stems from the possibility of additional escalation and deepening of the conflict. Because of the above, we believe that the impact of this risk is at the level of systemic risk. Additionally, armed conflicts in the Middle East, in case of escalation, can be a trigger for significant disruptions in the energy market, given the importance of that region in world oil production. Related to the aforementioned risk are frequent attacks on ships in the Red Sea, which led to disruptions in transport through the Suez Canal and influenced a significant increase in the price of transport as well as delivery time. The described risks had the effect of doubling the price of container transport of goods from China, along with the extension of the delivery period from two to three weeks. The combination of the described risks continuously exerts pressure on increased prices and extends the period of return to the target inflation levels.

In a narrower sense, the Bank implemented and continued to monitor the changes in restrictive measures (sanctions) imposed by the EU against Russia, especially in the field of financial services. At the same time, the Bank has no exposure to entities in Ukraine and Belarus and has an insignificant exposure to entities in Russia (0.0028% of total balance sheet exposure). At the same time, the Bank terminated all business and debtor-creditor relations with credit institutions in Russia, which also applies to the former owner of the merged Nova Hrvatska banka d.d. – Sberbank Russia, which minimizes the direct risk.

Impact of inflation on business in 2023

Most of the inflationary pressure was realized at the beginning of 2023, after which it began to decrease, however, the continuation of the normalization of the overall price level largely depends on the materialization of the above-mentioned geopolitical risks. Despite rising borrowing costs and falling real income, no significant drop in demand for HPB products and services was recorded. Accordingly, the Bank expects a continuation of the easing of inflationary pressures in 2024, and no material negative effects of inflation on the Bank's operations have been identified or expected, while in the event of continued inflationary pressures, there would be an impact on citizens' purchasing power and a reduction in real consumption, which would spill over to the profitability of companies which, due to the pressure of smaller output volumes, rising input prices and high debt prices, may have a reduced investment appetite or credit potential, i.e. rating from the Bank's perspective as a creditor. The latter scenario is not expected.

4. SEGMENT REPORTING

A segment is a distinguishable component of the Bank and Group that is engaged either in providing products or services (business segment) which achieves economic benefits or costs, including the transactions with other parts of the Bank and Group. The Group did not use internal transfer prices in determining the success of the segments.

The Group identified four major segments: banking with legal entities - divided into two sub-sectors (business with large companies and the public sector, small and medium-sized businesses), banking with physical persons, financial markets (including treasury and investment banking with custody) and direct banking. The description of business segments and their financial review is presented in Note 4 to these financial statements.

Group's operations, its total assets as well as the majority of its clients are based in Croatia.

The Group's business segments represent the primary reportable segments. The primary format is based on the Group's management and internal reporting structure. As the Group does not allocate overhead expenses and equity to segments, segment profitability is not reported.

Business Segments

The Group comprises following primary reportable segments:

- **Corporate Banking**
  Includes loans, deposits and other transactions and balances with corporate customers,
  Corporate banking is divided into two sub-segments:
    - Large companies and public sector
    - Small and medium enterprises
- **Retail Banking**
  Includes loans, deposits, direct (card) business, other transactions with retail customers and uninterrupted functioning and development of all direct distribution channels of products and services of the Bank.
- **Financial Markets**
  Group financing operations and the aggregate liquidity and foreign exchange risk activities in respect of borrowings, transactions with debt securities, use of derivatives and investments in liquid assets. It also includes asset management, securities custody and brokerage services.
- **Direct banking**
  Includes the smooth operation and development of all direct distribution channels of the Bank's products and services and card business.

The Group does not apply internal transfer prices in determining the financial results of segments. Internal transfer prices are a tool which the Group uses in reporting management.

Classification of individual sectors for the purposes of notes on the results and position of segments differs from other parts of the financial reports. This primarily refers to the owner of small enterprises, who are part of Corporate Banking in the report of segmentation, while in the financial reports part of positions related to the Retail Banking.

At least monthly, the Bank's Management Board reviews the management reports of each individual segment. There are no transactions between segments.

4. SEGMENT REPORTING (continued)

Group 2023 EUR '000	Corporate	Retail	Financial Market	Direct banking	Unallocated	Total
Net Interest Income	38,256	61,181	70,220	-	(5,448)	**164,209**
Net Fees and Commissions Income	12,197	18,193	239	4,544	(2,262)	**32,911**
Trading and Investment Income	-	-	6,823	-	(60)	**6,763**
Other Income	258	161	-	1,900	5,593	**7,912**
Operating Income	**50,711**	**79,535**	**77,282**	**6,444**	**(2,177)**	**211,795**
General and Administrative Expenses	(10,768)	(53,492)	(3,513)	(5,246)	(25,035)	**(98,054)**
Depreciation	-	-	-	-	(14,522)	**(14,522)**
Impairment Losses on Loans and Other Assets	7,340	(13,708)	(104)	-	(2,269)	**(8,741)**
Provisions for Liabilities and Expenses	1,470	(89)	-	-	5,364	**6,745**
Operating Expenses	**(1,958)**	**(67,289)**	**(3,617)**	**(5,246)**	**(36,462)**	**(114,572)**
Profit Before Taxation	48,753	12,246	73,665	1,198	(38,639)	**97,223**
Income Tax	-	-	-	-	(14,136)	**(14,136)**
Profit for the Year	**48,753**	**12,246**	**73,665**	**1,198**	**(52,775)**	**83,087**
Segment Assets	1,381,276	1,646,728	3,885,912	22,418	-	**6,936,334**
Unallocated Assets	-	-	-	-	109,283	**109,283**
Total Assets	**1,381,276**	**1,646,728**	**3,885,912**	**22,418**	**109,283**	**7,045,617**
Segment Liabilities	2,938,520	3,020,433	326,152	-	-	**6,285,105**
Unallocated Equity and Reserves and Liabilities	-	-	-	-	760,512	**760,512**
Total Equity and Reserves and Liabilities	**2,938,520**	**3,020,433**	**326,152**	**-**	**760,512**	**7,045,617**

4. SEGMENT REPORTING (continued)

Group **2022** **EUR '000**	**Corporate**	**Retail**	**Financial Market**	**Direct banking**	**Unallocated**	**Total**
Net Interest Income	25,664	61,466	10,330	-	(323)	**97,137**
Net Fees and Commissions Income	12,312	18,970	305	6,044	(3,106)	**34,525**
Trading and Investment Income	-	-	(1,157)	-	-	**(1,157)**
Other Income	118	61	338	388	1,575	**2,480**
Operating Income	**38,094**	**80,497**	**9,816**	**6,432**	**(1,854)**	**132,985**
General and Administrative Expenses	(6,298)	(24,724)	(2,444)	(4,906)	(53,895)	**(92,267)**
Depreciation	-	-	-	-	(13,030)	**(13,030)**
Impairment Losses on Loans and Other Assets	(3,728)	(17,779)	2,680	-	(5,851)	**(24,678)**
Provisions for Liabilities and Expenses	-	-	-	-	(7,957)	**(7,957)**
Operating Expenses	**(10,026)**	**(42,503)**	**236**	**(4,906)**	**(80,733)**	**(137,932)**
Gain on bargain purchase	-	-	-	-	135,213	**135,213**
Profit Before Taxation	28,068	37,994	10,052	1,526	52,626	**130,266**
Income Tax	-	-	-	-	(3,601)	**(3,601)**
Profit for the Year	**28,068**	**37,994**	**10,052**	**1,526**	**49,025**	**126,665**
Segment Assets	1,484,554	1,770,007	2,221,302	15	22,666	**5,498,544**
Unallocated Assets	-	-	-	-	41,535	**41,535**
Total Assets	**1,484,554**	**1,770,007**	**2,221,302**	**15**	**64,201**	**5,540,079**
Segment Liabilities	2,448,640	2,296,713	222,787	12,738	-	**4,980,878**
Unallocated Equity and Liabilities	-	-	-	-	559,201	**559,201**
Total Equity and Reserves and Liabilities	**2,448,640**	**2,296,713**	**222,787**	**12,738**	**559,201**	**5,540,079**

4. SEGMENT REPORTING (continued)

Bank 2023 EUR '000	Corporate	Retail	Financial Market	Direct banking	Unallocated	Total
Net Interest Income	32,295	46,659	70,478	-	(3,656)	**145,776**
Net Fees and Commissions Income	10,550	15,201	239	5,295	(1,927)	**29,358**
Trading and Investment Income	-	-	6,823	-	(20)	**6,803**
Other Income	258	161	-	1,900	5,218	**7,537**
Operating Income	**43,103**	**62,021**	**77,540**	**7,195**	**(385)**	**189,474**
General and Administrative Expenses	(9,859)	(50,494)	(3,367)	(4,840)	(15,396)	**(83,956)**
Depreciation	-	-	-	-	(11,839)	**(11,839)**
Impairment Losses on Loans and Other Assets	7,125	(10,035)	(10)	-	(2,095)	**(5,015)**
Provisions for Liabilities and Expenses	-	-	-	-	5,364	**5,364**
Operating Expenses	**(2,734)**	**(60,529)**	**(3,377)**	**(4,840)**	**(23,966)**	**(95,446)**
Profit Before Taxation	40,369	1,492	74,163	2,355	(24,351)	**94,028**
Income Tax	-	-	-	-	(13,413)	**(13,413)**
Profit for the Year	**40,369**	**1,492**	**74,163**	**2,355**	**(37,764)**	**80,615**
Segment Assets	1,381,276	1,646,728	3,885,912	22,418	-	**6,936,334**
Unallocated Assets	-	-	-	-	109,719	**109,719**
Total Assets	**1,381,276**	**1,646,728**	**3,885,912**	**22,418**	**109,719**	**7,046,053**
Segment Liabilities	2,938,520	3,020,433	326,152	-	-	**6,285,105**
Unallocated Equity and Reserves and Liabilities	-	-	-	-	760,948	**760,948**
Total Equity and Reserves and Liabilities	**2,938,520**	**3,020,433**	**326,152**	**-**	**760,948**	**7,046,053**

4. SEGMENT REPORTING (continued)

Bank **2022** **EUR '000**	**Corporate**	**Retail**	**Financial Market**	**Direct banking**	**Unallocated**	**Total**
Net Interest Income	18,081	40,404	12,277	-	(145)	**70,617**
Net Fees and Commissions Income	9,703	13,703	305	6,044	(2,285)	**27,470**
Trading and Investment Income	-	-	(1,190)	-	-	**(1,190)**
Other Income	118	61	338	388	552	**1,457**
Operating Income	**27,902**	**54,168**	**11,730**	**6,432**	**(1,878)**	**98,354**
General and Administrative Expenses	(4,662)	(19,086)	(911)	(4,521)	(36,281)	**(65,461)**
Depreciation	-	-	-	-	(9,298)	**(9,298)**
Impairment Losses on Loans and Other Assets	6,622	(7,079)	2,815	-	1,765	**4,123**
Provisions for Liabilities and Expenses					(6,691)	**(6,691)**
Operating Expenses	**1,960**	**(26,165)**	**1,904**	**(4,521)**	**(50,505)**	**(77,327)**
Profit Before Taxation	29,862	28,003	13,635	1,911	(52,384)	**21,027**
Income Tax	-	-	-	-	(3,427)	**(3,427)**
Profit for the Year	**29,862**	**28,003**	**13,635**	**1,911**	**(55,811)**	**17,600**
Segment Assets	1,094,044	1,175,486	2,244,590	15	-	**4,514,135**
Unallocated Assets	-	-	-	-	49,072	**49,072**
Total Assets	**1,094,044**	**1,175,486**	**2,244,590**	**15**	**49,072**	**4,563,207**
Segment Liabilities	2,094,466	1,878,886	175,333	12,738	-	**4,161,423**
Unallocated Equity and Reserves and Liabilities	-	-	-	-	401,784	**401,784**
Total Equity and Reserves and Liabilities	**2,094,466**	**1,878,886**	**175,333**	**12,738**	**401,784**	**4,563,207**

5. CASH AND RECEIVABLES FROM BANKS

Cash and bank accounts are initially recognized at fair value and are subsequently measured at amortized cost.
Cash and cash equivalents include cash in hand, cash with the Croatian National Bank, placements with other banks with an original maturity of up to three months or less, and instruments in the offsetting and settlement process.

	Group		Bank	
	2023 EUR '000	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Cash in Hand				
Held by the Group/Bank	136,788	126,341	136,781	100,608
Cash in transit	-	25,502	-	25,502
Cheques in the Course of Collection	21	10	21	10
	136,809	**151,853**	**136,802**	**126,120**
Amounts Due from Banks				
Current Accounts with Domestic Banks	1,239	762	1,239	182
Current Accounts with Foreign Banks	8,310	12,958	8,310	11,193
Transaction Account with CNB	56,496	1,306,514	56,496	1,179,044
Other deposits with central banks	2,900,967	-	2,900,967	-
	2,967,012	**1,320,234**	**2,967,012**	**1,190,419**
Total	**3,103,821**	**1,472,087**	**3,103,814**	**1,316,539**

6. LOANS TO AND RECEIVABLES FROM BANKS

Placements with banks are classified as loans and receivables and measured at amortized cost less expected credit losses.

Movements in Expected Credit Losses

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Balance at January 1	234	200	1.411	200
Merger effect NHB	-	1,314	(1,472)	-
Expected Credit Losses on Loans to and Receivables from Banks	(179)	(1,279)	116	1,211
Balance at December 31	**55**	**235**	**55**	**1,411**

All placements and loans to other banks of the Group and Bank are in stage 1 and during the year there were no transfers between stages, except for receivables from Banks in the amount of EUR 66 thousand, which is in stage 3 and in previous periods a 100% impairment was carried out.

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Short-Term Placements with Domestic Banks	389	11,488	389	183,561
Short-Term Placements with Foreign Banks	3,317	14,423	3,317	14,063
Total Short-Term Placements and Loans Banks	**3,706**	**25,911**	**3,706**	**197,624**
Guarantee Deposits with Foreign Banks	-	2,362	-	2,362
Long-Term Placements with Domestic Banks	-	-	-	66,000
Total Short-Term Placements and Loans Banks	**-**	**2,362**	**-**	**68,362**
Short-Term Placements with Domestic Non-Banking Financial Institutions	-	66	-	66
Total Placements with Domestic Non-Banking Financial Institutions	**-**	**66**	**-**	**66**
Expected Credit Losses on loans to and receivables from banks	**(55)**	**(234)**	**(55)**	**(1,411)**
Accrued Interests Not Yet Due	3	2	3	108
Total Interests Receivable	**3**	**2**	**3**	**108**
Total	**3,654**	**28,107**	**3,654**	**264,749**

FINANCIAL INSTRUMENTS (NOTE 7, 8, 9, 10)

ACCOUNTING POLICY

a) Classification

The Bank classifies all financial assets in terms of asset management business model, which is measured as follows:

- Amortized cost,
- Fair value through other comprehensive income (FVOCI),
- Fair value through profit and loss account (FVPL).

Financial liabilities, except liabilities based on loans with interest rates lower than market interest rates, financial guarantees and financial liabilities determined at fair value through the profit and loss account, are measured at amortized cost.

The basis for classification depends on the entity's business model and the characteristics of the contractual cash flow of the financial asset. Management Board determines the classification of financial instruments upon initial recognition.

Business model assessment

The Bank and Group determine business models in a manner that best reflects management of financial assets group in order to achieve the business purpose.

Business models of the Bank and Group are not determined at individual level of each instrument, but at aggregate level of the group of the financial instruments.

Business model assessment is based on reasonably expected scenarios. If cash flows after initial recognition are realized in a manner different than the initially expected, the Bank do not change the classification of the remaining financial assets held in that business model, but in the future include new information into the assessment of newly approved or purchased financial assets.

In accordance with IFRS 9, the Bank and Group classify its financial assets in accordance with the following business models:

Business model with the purpose of holding the assets in order to collect contractual cash flows
Financial assets held within this business model are managed with the intent to generate cash flows by collecting contractual payments during the instrument's lifetime. The Bank manage the assets within the portfolio to collect certain cash flows (instead of managing the entire portfolio yield that is realized by holding and also by selling the assets).

Business model with the purpose of collecting cash flows and by selling the financial assets
Within this business model the Bank hold financial assets, which purpose is to collect contracted cash flows and also to sell the financial assets. Within this business model the key management personnel makes the decision that the goal of the business model is realized by collecting cash flows and by selling the financial assets. One of the goals of the business model is managing daily needs related to liquidity to keep a certain interest yield profile or that the duration of the financial assets corresponds to duration of liabilities financed by those assets.

Other business models
Financial assets are measured at fair value through profit and loss account if they are not held within the business model with the intent of holding financial assets to collect contracted cash flows or within the business model with the intent of collecting contracted cash flows and by selling financial assets.

FINANCIAL INSTRUMENTS (NOTE 7, 8, 9, 10) (continued)

The business model which consequently has measurement at fair value through profit and loss account is the one within the Bank manage the financial assets with the intent of generating cash flows by selling the assets. The Bank make decision based on fair value of the assets and manage it to realize the fair value.

Financial Markets Division acquires different types of financial assets, whereby the intent for their acquisition is not unambiguous. Within the context of the IFRS 9 application the model of acquisition of financial assets and its placement within business models will be allocated between Financial Markets Division and Assets and Liabilities Management Office.

Financial Markets Division when deciding the acquisition of financial assets can place the stated into one of three business models as defined by IFRS 9. Financial Markets Division more closely describes with the Internal act conditions and manner of acquiring financial assets and its placement into each category in accordance with the chosen business model.

Assets and Liabilities Management committee makes decisions, on recommendation of Assets and Liabilities Management Office, on financial assets acquisitions within the business model holding to collect and sale. Investments related to this business model will arise from the Bank's investments into financial assets with the intent of liquidity management – general strategy. Transactions related to the stated business model are carried out by Financial Markets Division by directive from Assets and Liabilities Management Office. The Bank places financial instruments within this business model mainly with the purpose of keeping regulatory obligations and prescribed ratios or liquidity reserves in accordance with internal and external limits.

Solely Payments of Principal and Interest test (so called SPPI test)

As the next step of the classification process the Bank and Group asses contracted conditions of financial assets in order to conclude whether the stated assets have contracted cash flows which are solely payments of principal and interest on unpaid amount of the principal. For purposes of applying this test, the 'principal'' is fair value of financial assets at initial recognition, however that amount of the principal can be changed during the financial assets' lifetime (i.e. in case of paying off the principal). The interest covers the fee for time value of cash, for credit risk related to unpaid amount of the principal during certain period and other basic risks and loan cost and also for profit margin. In order to assess the SPPI test result, the Bank and Group apply assessment and take into consideration important factors such as the currency of financial assets.

However, if contracted cash flows of financial assets are not solely payments of principal and interest on unpaid amount of the principal, such financial assets are subsequently measured at fair value through profit and loss account.

Financial assets at fair value through profit and loss account

This category contains two subcategories: financial instruments held for trading (including derivative financial instruments) and financial instruments the Management Board had initially recognized at fair value through profit and loss account, or those that have to be recognized at fair value through profit and loss account in accordance with IFRS 9. The Bank recognizes financial assets and liabilities at fair value through profit and loss account when:

- Assets and liabilities are managed, measured or are internally presented at fair value,
- Accounting mismatch is eliminated or significantly reduced by recognition, which would otherwise arise, or
- Assets and liabilities contain certain derivative which significantly changes cash flows which would otherwise arise from the contract.

Financial assets at fair value through profit and loss account include equity securities, debt securities, shares in investment funds and derivative financial instruments held for trading.

FINANCIAL INSTRUMENTS (NOTE 7, 8, 9, 10) (continued)

Financial assets held for trading relate to assets purchased or issued mainly for transactions which realize profit in a short-term.

Changes in fair value of these assets are recognized through net income from trading.

Financial assets at amortized cost

The Bank and Group measure financial assets at amortized cost if both following conditions are met::

- Financial assets are held within business model with the intent of holding financial assets in order to collect contracted cash flows,
- Based on contracted terms of financial assets for certain dates, cash flows arise which are solely payments of principal and interest on unpaid amount of the principal.

Financial assets at amortized cost of the Bank and Group arise when the Bank and Group approve cash instruments to clients with no intention of trading with those receivables and include loans and receivables from banks, loans, and receivables from customers, as well as mandatory reserve at Croatian National Bank and debt securities.

Financial assets at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income only if both following conditions are met:

- Financial assets are held within business model with the intention of collecting contracted cash flows and by selling the financial assets,
- Based on contract terms of financial assets on certain dates arise cash flows which are solely payments of principal and interest on unpaid amount of the principal.

Gains and losses from financial assets measured at fair value through other comprehensive income are recognized through other comprehensive income, except for gains or losses from impairment and gains and losses from exchange rate differences, up to derecognition of financial assets or its reclassification. If financial assets were derecognized, the cumulative gains or losses previously recognized through other comprehensive income are reclassified from equity into profit and loss account as reclassification adjustment.

Interests calculated by the effective interest rate are recognized in the profit and loss account.

Assets measured at fair value through other comprehensive income include debt securities.

Investments in an equity instrument which are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, Bank may, at initial recognition, make an irrevocable election to present subsequent changes in the fair value in other comprehensive income. The election is possible for each separate investment. Subsequent changes in the fair value will be presented in other comprehensive income without option of recycling to profit or loss statement.

For these equity instruments Bank will in profit or loss statement recognize dividends from those investments if the entity's right to receive payment of the dividend is established, it is probable that the economic benefits associated with the dividend will flow to the entity and the amount of the dividend can be measured reliably.

Other financial liabilities

Other financial liabilities cover all financial liabilities not measured at fair value through profit and loss account.

b) Recognition and Derecognition

Purchases and sales of financial assets and financial liabilities at fair value through profit and loss, financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income are recognized on the settlement date.

The Bank and Group derecognizes financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights over financial asset.

This occurs when the Bank and Group transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realized, surrendered, or have expired. At full derecognition of financial assets, the difference between book value (determined at derecognition date) and received consideration is recognized in the profit and loss account.

The Bank derecognize financial liabilities only when the financial liability ceases to exist, i.e., when it is discharged, cancelled, or has expired. If the terms of a financial liability change, the Bank and Group will cease recognizing that liability and will instantaneously recognize a new financial liability, with new terms and conditions.

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

c) Initial and Subsequent Measurement

Financial asset and liabilities are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Bank measures financial instruments at fair value through profit or loss and financial assets measured at amortized cost and financial assets at fair value through other comprehensive income. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are initially recognized at acquisition cost and are subsequently measured applying internal models of fair value estimation.

Loans and receivables and held to maturity investments and financial liabilities not designated at fair value through profit or loss are measured at amortized cost.

Classification in risk categories

The Bank classifies loans into risk groups in accordance with the Decision on classification of exposure into risk groups and the method of determining credit losses.

Thus, the Bank classifies loans that, in accordance with the Decision, are not in default status into risk group A. In accordance with the provisions of IFRS 9, the Bank also allocates into risk subgroup A-1 placements for which it has been determined that, after initial recognition, the credit risk of an individual debtor's exposure did not increase significantly, and into the risk sub-group A-2 placements for which it was determined that after the initial recognition the credit risk of an individual debtor's exposure increased significantly. For such exposures, the Bank carries out appropriate write-downs and exposure provisions in an amount equal to expected credit losses in the twelve-month period for risk subgroup A-1, i.e., expected credit losses during the lifetime for risk subgroup A-2. The Bank classifies loans that it assesses as partially recoverable into risk group B, depending on the percentage of loss: into risk group B-1 (loans for which the determined loss does not exceed 30% of the principal amount of the placement), into risk group B-2 (loans for which the determined loss amounts to more than 30% to 70% of the principal amount of the placement), into risk group B-3 (loans for which the determined loss amounts to more than 70% and less than 100% of the principal amount of the loan). The Bank classifies loans that it considers to be completely irrecoverable into risk group C.

Expected credit losses

The Bank and Group base its assessment of expected credit losses on loans on International Financial Reporting Standard 9 (IFRS 9), analysing quantitative and qualitative information.

The analysis of credit risk is comprehensive and is based on multiple indicators, for example, whether a certain indicator is important and whether its importance can be compared with other indicators depends on the type of product, characteristics of financial instruments, debtor, etc. However, some indicators cannot be determined on level of individual instruments, and in that case the Bank evaluates the indicators for the corresponding parts of the portfolio of financial instruments.

Furthermore, the credit quality analysis foresees for each reporting date a comparison of the credit quality of the financial instrument at the time of valuation and at the time of initial recognition or acquisition, all to determine whether the criteria for classification in "Level 2" are met.

The Bank differentiates the criteria in order to recognize significant increase in credit risk for different exposure portfolios. For retail and legal entities segments following criteria is in place:

- Absolute triggers such as days past due, blocked account, lowest performing rating;
- Quantitative trigger – PD deterioration since initial recognition;
- Recognized early warning signs (EWS monitoring classification);
- Approved forbearance measures;
- Upgrade from default status.

Criteria for significant increase in credit risk for exposure towards sovereigns and banking financial institutions is deterioration in credit rating.

In addition, while estimating expected losses an important element is also including future factors through macroeconomic scenarios.

Key data for measuring expected credit losses are the following variables:

- Probability of default (PD),
- Loss given default (LGD),
- Exposure at default (EAD).

Expected credit losses for exposures (ECL) in ''Stage 1'' are calculated as product of 12-month PD, LGD and EAD.

Expected credit losses for exposures (ECL) in ''Stage 2'', that is lifetime expected credit losses are calculated as product of lifetime PD, LGD and EAD discounted at reporting date.

In 2023, with the merger of Nova Hrvatska banka, new central tendencies were calculated on the joint portfolio, which were used to calibrate the PD model for the retail and corporate segment (CORP S and CORP LM).

When calculating the lifelong PD for the retail and corporate segment, the Bank models the risk parameter PD based on transition matrices. The lifetime PD value is the cumulative value of the PD risk parameter limit values depending on the exposure tenor. Exposures to financial institutions and central governments use an external investment rating approach.

The LGD risk parameter is modelled based on the analysis of transactions with default status for exposures to legal entities and individuals. In 2023, a new LGD model was created for retail on a joint portfolio (HPB and NHB). The modelling of the LGD risk parameter for exposures to central governments and financial institutions is based on historical collection rates published by credit rating agencies.

Considering the criteria, it applies when estimating the recoverable amount of placements, the Bank divides placements into placements that belong to the portfolio of small loans and placements that do not belong to the portfolio of small loans.

Small loans portfolio placements are total placements and off-balance liabilities to one customer or group of related persons for which the total balance is in the gross amount (without impairment or provision) at estimation date lower than EUR 150,000.00.

Modelling of the EAD risk parameter, that is exposure at default depends on the profile of repayment. Calculation of exposure at default is generated monthly and summed annually where necessary.

When estimating expected credit losses for off-balance liabilities, conversion factor 1 is used.

Expected credit losses on individual basis

The recoverable amount of placements that are not classified within the small loan portfolio of the Bank is estimated on an individual basis according to the following criteria:

- Debtor's creditworthiness,
- Debtor's timeliness in meeting their obligations, and
- Collateral quality.

In this respect, credit rating of the debtor and/ or other parties in the loan business (guarantors, co-debtors etc.) is taken into account, as well as days-past-due in debt settlement and type and appraised value of the available collateral. By taking this into consideration, as well as other available information, including info on significant increase in credit risk, the Bank estimates loan recoverability by evaluating future cash flows arising from the placement, which are discounted and compared with placement's book value. Required impairments are determined in this way. Bank complies with regulations from Decision on the Classification of Placements and Off-Balance Sheet Liabilities of Credit Institutions with respect to procedures for restructured placements, placements whose repayment is based on collateral, placements that are not secured by adequate collateral, as well as other regulations regarding eligibility of collateral and appropriate discount factors used for impairment calculations.

From the beginning of 2021, the Bank, in accordance with regulatory provisions contained in the Decision on Amendments to the Decision on Implementation of Regulation (EU) No. 575/2013 in the field of valuation of assets and off-balance sheet items and calculation of regulatory capital and capital requirements and Guidelines on changing the definition of default the obligation under Article 178 of Regulation (EU) No 575/2013) applies materiality thresholds of EUR 100 for the retail and EUR 500 for the non-retail, with a relative threshold of 1% for all segments. In addition, in July 2021, the Bank introduced changes in the recognition of non-compliance status for retail, where it raised the recognition from the product level to the customer level.

Expected credit losses on portfolio basis

The Bank estimates the recoverable amount of exposures that are classified on a portfolio basis by having regard principally to the debtors' timeliness in meeting their obligations. In arriving at the recoverable amount, the present value of future cash flows from the placements is estimated by reducing the principal by reference to the loan type and the number of days in default.

d) Determination of Fair Value of Financial Instruments

The fair value of quoted financial assets in an active market is based on their closing price. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Bank uses an internal evaluation model for fair value estimation. Such models include the use of prices achieved in recent transactions, by reference to similar financial instruments, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments at fair value through the profit and loss account and financial assets at fair value through other comprehensive income are valued at fair value. Loans and receivables and investments valued at amortized cost are reported at amortized cost less value adjustments. Financial assets at fair value through the profit and loss account and financial assets at fair value through other comprehensive income are stated at fair values derived from quoted prices of those instruments on active markets. Financial liabilities at fair value through the profit and loss account are stated at fair values calculated based on the available terms of those instruments.

In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account as they value the asset or liability at the measurement date. Fair value for measurement and/ or disclosure purposes in these separate financial reports is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16 and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement, which are described as follows:

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

The fair value of derivative instruments that are not traded is estimated based on the amount of receipts or expenses that the Bank and Group would incur in the event of the sale of the contract on the date of financial reports preparation, taking into account current market conditions, own credit risk and the creditworthiness of other contracting parties.

e) Reclassification

When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. Bank does not reclassify financial liabilities. Reclassifications between categories depend on the category in which the financial instrument was initially recognized. If the Bank reclassifies financial assets in accordance, it will apply the reclassification prospectively from the reclassification date. The Bank will not restate any previously recognized gains, losses (including impairment gains or losses) or interest.

If the Bank reclassifies a financial asset out of the amortized cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

If the Bank reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortized cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

If the Bank reclassifies a financial asset out of the amortized cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If the Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortized cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortized cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If the Bank reclassifies a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

f the Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Other financial instruments

Treasury Bills and Debt Securities
Treasury bills and debt securities that the Bank holds for the purpose of short-term profit taking are classified as at fair value through profit or loss. If the intention is to collect contractual cash flows for the purpose of long-term profit taking, financial assets are classified as assets at fair value through other comprehensive income and are valued at fair value. Treasury bills and debt securities that the Bank has the intent and ability to hold to maturity are classified as held to maturity assets.

Equity Securities and Investments in Open-End Investment Funds
Equity securities and investments in open-ended investment funds are classified as at fair value through profit or loss or as assets at fair value through other comprehensive income.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Trading Instruments				
Bonds of the Ministry of Finance	36,626	50,600	36,521	38,714
Corporate bonds and commercial bills	3,026	3,152	3,026	3,152
Listed Debt Securities	**39,652**	**53,752**	**39,547**	**41,866**
Listed Shares of Investment Funds	**10,806**	**9,198**	**10,806**	**9,198**
Listed Equity Securities	**3,542**	**3,307**	**3,542**	**3,308**
	54,000	**66,257**	**53,895**	**54,372**
Fair value of exchange contracts	**613**	**-**	**613**	**-**
Loans and receivables from customers				
- corporate	-	324	-	324
- retail	491	335	491	335
	491	**659**	**491**	**659**
Accrued Interests Not Yet Due	302	615	301	591
Total	**55,406**	**67,531**	**55,300**	**55,622**

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank	
	2023 EUR '000	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Equity securities Not Listed				
- Corporate	4,139	3,451	4,139	3,451
	4,139	**3,451**	**4,139**	**3,451**
Listed Equity Securities				
- Corporate	255	19	255	-
- Non-Banking Financial Institutions	-	338	-	338
	255	**357**	**255**	**338**
Total	**4,394**	**3,808**	**4,394**	**3,789**

Since the beginning of 2022, the Bank has been faced with several key events that greatly affected its regular operations. It relates to the acquisition of Nova Hrvatska banka d.d. ("NHB"), preparations for the introduction of the EURO currency and changes in macroeconomic trends. The acquisition of NHB had a significant strategic and financial impact on the Group's operations, where the most important is the channelling of excess liquidity towards NHB (which had a significant impact on the hold to collect and sale business model, i.e. the way in which it is evaluated and it is reported to key management - all in accordance with point B4.1.2B of IFRS 9) and the gradual preparation of a new operational target model. As part of the organizational changes, the focus in the management of the debt securities portfolio is shifted from the management of liquidity reserves that can be sold on the market if necessary to a debt securities portfolio with expected interest income upon maturity.

In recent years, due to the high level of system liquidity, the Bank has extremely rarely used the instrument of selling part of the debt securities from the business model of hold to collect and sale.

Considering all the above-mentioned factors and the fact that securities from the hold to collect and sell business model are not sold for eventual liquidity needs but are mainly held for the purpose of collecting contracted cash flows, such securities actually meet the criteria of the hold to collect business model. In 2022, the Bank decided to change the business model for debt securities held by the Bank for the purpose of collection and sale to the business model hold to collect. By changing the business model, the Bank consequently reclassified the portfolio of securities that were allocated to hold to collect and sell business model to the hold to collect business model, in accordance with point 4.4.1. as part of International Financial Reporting Standard 9 (IFRS 9): Financial Instruments. The amount that was reclassified from the portfolio that was valued at fair value through other comprehensive income amounted to EUR 382,163 thousand for the Bank and EUR 450,030 thousand for the Group.

The fair value of the reclassified assets, in the case it remains in the portfolio, would be the financial assets at fair value through other comprehensive income on December 31, 2022, would amount to EUR 368,636 thousand for the Bank and EUR 436,504 thousand for the Group, while the amount of the loss that the Bank would recognize in the fair value reserve for the year 2022 amounted to EUR 60,776 thousand, and the Group EUR 66,413 thousand. The dividend recognized on equity securities in the portfolio of financial assets at fair value through other comprehensive income in 2022 for the Bank and the Group amounted to EUR 17 thousand.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

During 2022, securities in the nominal amount of EUR 168,609 thousand in the Bank and EUR 170,742 thousand in the Group matured in the portfolio at fair value through other comprehensive income. By selling securities from the aforementioned portfolio, the Bank and the Group realized profit of EUR 281 thousand.

On December 31, 2023, the Bank and the Group did not have debt securities from the portfolio that is valued through other comprehensive income.

Movement in Expected Credit Losses for Financial Assets at Fair Value through Other Comprehensive Income

Group	2023 EUR '000			2022 EUR '000		
	Expected Credit Losses Stage 3	Expected Credit Losses Stage 1 and 2	Total	Expected Credit Losses Stage 3	Expected Credit Losses Stage 1 and 2	Total
At January 1	**-**	**-**	**-**	**137**	**2,815**	**2,952**
Increase in expected credit losses	-	-	**-**	-	(2,815)	**(2,815)**
Other	-	-	**-**	(137)	-	**(137)**
At December 31	**-**	**-**	**-**	**-**	**-**	**-**

Bank	2023 EUR '000			2022 EUR '000		
	Expected Credit Losses Stage 3	Expected Credit Losses Stage 1 and 2	Total	Expected Credit Losses Stage 3	Expected Credit Losses Stage 1 and 2	Total
At January 1	**-**	**-**	**-**	**137**	**2,815**	**2,952**
Increase in expected credit losses	-	-	**-**	-	(2,815)	**(2,815)**
Other	-	-	**-**	(137)	-	**(137)**
At December 31	**-**	**-**	**-**	**-**	**-**	**-**

9. FINANCIAL ASSETS AT AMORTIZED COST

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Bonds of Ministry of Finance	662,991	592,318	662,991	519,510
Treasury bills of Ministry of Finance	148,284	149,951	148,284	149,951
Bank Bonds	20,016	30,000	20,016	30,000
Foreign Bank Bonds	10,000	-	10,000	-
Corporative Bonds	10,166	20,476	10,166	20,476
Bills of Exchange	-	312	-	-
	851,457	**793,057**	**851,457**	**719,937**
Overdue interest	5,770	4,819	5,770	4,259
Provisions for stage 1 and 2	(1,370)	(1,303)	(1,370)	(1,220)
Total	**855,857**	**796,573**	**855,857**	**722,976**

Movement in Expected Credit Losses for Financial Assets at Amortized Cost

Group

EUR '000	2023			2022		
	Expected Credit Losses Stage 3	Expected Credit Losses Stage 1 and 2	Total	Expected Credit Losses Stage 3	Expected Credit Losses Stage 1 and 2	Total
Balance at January 1	**-**	**1,303**	**1,303**	**-**	**1**	**1**
Merger effect NHB	-	-	**-**	-	-	**-**
Increase/ (Decrease) of expected credit losses	-	67	**67**	-	160	**160**
Reclassification effect FVOCI	-	-	**-**	-	1,142	**1,142**
Balance at December 31	**-**	**1,370**	**1,370**	**-**	**1,303**	**1,303**

Bank

EUR '000	2023			2022		
	Expected Credit Losses Stage 3	Expected Credit Losses Stage 1 and 2	Total	Expected Credit Losses Stage 3	Expected Credit Losses Stage 1 and 2	Total
Balance at January 1	**-**	**1,220**	**1,220**	**-**	**1**	**1**
Merger effect NHB	-	280	**280**	-	-	**-**
Increase/ (Decrease) of expected credit losses	-	(129)	**(129)**	-	154	**154**
Reclassification effect FVOCI	-	-	**-**	-	1,065	**1,065**
Balance at December 31	**-**	**1,371**	**1,371**	**-**	**1,220**	**1,220**

9. FINANCIAL ASSETS AT AMORTIZED COST (continued)

Group

EUR '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2023	**713,439**	**10,757**	**-**	**724,196**
Arisen or purchased new assets – derecognized or paid off assets (excluding write-offs)	143,538	(10,506)	-	**133,032**
Balance at 31 December 2023	**856,977**	**251**	**-**	**857,228**
Expected Credit Losses at 1 January 2023	**(1,288)**	**(15)**	**-**	**(1,303)**
Arisen or purchased new assets – derecognized or paid off assets (excluding write-offs)	(66)	(2)	-	**(68)**
Expected Credit Losses at 31 December 2023	**(1,354)**	**(17)**	**-**	**(1,371)**

Group

EUR '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	**-**	**61**	**-**	**61**
Arisen or purchased new assets – derecognized or paid off assets (excluding write-offs)	713,439	10,696	-	**724,135**
Balance at 31 December 2022	**713,439**	**10,757**	**-**	**724,196**
Expected Credit Losses at 1 January 2022	**-**	**(1)**	**-**	**(1)**
Arisen or purchased new assets – derecognized or paid off assets (excluding write-offs)	(1,205)	(14)	-	**(1,219)**
Expected Credit Losses at 31 December 2022	**(1,205)**	**(15)**	**-**	**(1,220)**

9. FINANCIAL ASSETS AT AMORTIZED COST (continued)

Bank

EUR '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2023	**713,439**	**10,757**	**-**	**724,196**
Arisen or purchased new assets – derecognized or paid off assets (excluding write-offs)	69,026	(10,506)	-	**58,520**
Merger effect	74,512	-	-	**74,512**
Balance at 31 December 2023	**856,977**	**251**	**-**	**857,228**
Expected Credit Losses at 1 January 2023	**(1,205)**	**(15)**	**-**	**(1,220)**
Arisen or purchased new assets – derecognized or paid off assets (excluding write-offs)	(234)	(2)	-	**(236)**
Merger effect	**85**	**-**	**-**	**85**
Expected Credit Losses at 31 December 2023	**(1,354)**	**(17)**	**-**	**(1,371)**

Bank

EUR '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	**-**	**61**	**-**	**61**
Arisen or purchased new assets – derecognized or paid off assets (excluding write-offs)	713,439	10,696	-	**724,135**
Balance at 31 December 2022	**713,439**	**10,757**	**-**	**724,196**
Expected Credit Losses at 1 January 2022	**-**	**(1)**	**-**	**(1)**
Arisen or purchased new assets – derecognized or paid off assets (excluding write-offs)	(1,205)	(14)	-	**(1,219)**
Expected Credit Losses at 31 December 2022	**(1,205)**	**(15)**	**-**	**(1,220)**

10. LOANS TO AND RECEIVABLES FROM CUSTOMERS

Loans to customers are presented using the effective interest rate and net of losses for expected credit losses. Purchased loans for which the Bank intends to collect contracted cash flows are classified as assets valued at amortized cost. In accordance with the CNB requirements, amortization of any discounts included within impairment losses is presented in impairment losses.

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Short-Term Loans				
Corporate	145,907	276,910	145,907	191,747
Retail	99,452	139,360	99,452	121,794
Total Short-Term Loans	**245,359**	**416,270**	**245,359**	**313,541**
Long-Term Loans				
Corporate	1,283,460	1,263,054	1,283,460	957,668
Retail	1,594,397	1,624,405	1,594,397	1,022,366
Total Long-Term Loans	**2,877,857**	**2,887,459**	**2,877,857**	**1,980,034**
Accrued Interests Due	18,562	17,875	18,562	14,879
Accrued Interests Not Yet Due	9,245	7,814	9,245	3,601
Total Gross Loans	**3,151,023**	**3,329,418**	**3,151,023**	**2,312,055**
Expected credit losses for stage 3	**(192,757)**	**(214,338)**	**(192,757)**	**(171,716)**
Expected credit losses for stage 1 and 2	**(48,330)**	**(53,261)**	**(48,330)**	**(33,535)**
Total expected credit losses	**(241,087)**	**(267,599)**	**(241,087)**	**(205,251)**
Total Net Loans	**2,909,936**	**3,061,819**	**2,909,936**	**2,106,804**
Percentage share of provisions for expected credit losses and reserves in gross loans to customers	7.65%	8.04%	7.65%	8.88%

10. LOANS TO AND RECEIVABLES FROM CUSTOMERS (continued)

Movements in expected credit losses

Movements in the expected credit losses on loans to and receivables from customers were as follows:

Group	2023 EUR '000			2022 EUR '000		
	Expected Credit Losses Stage 3	Expected Credit Losses Stage 1 and 2	Total	Expected Credit Losses Stage 3	Expected Credit Losses Stage 1 and 2	Total
Balance at January 1	**214.338**	**53.260**	**267,598**	**173,641**	**32,486**	**206,127**
Merger effect NHB	-	-l	**-**	37,756	8,882	**46,638**
Increase/(decrease) in expected credit losses	9,141	(4,930)	**4,211**	8,761	11,852	**20,613**
Net Foreign Exchange Loss	-	-	**-**	(309)	26	**(283)**
Write-Offs	-	-	**-**	(2,079)	-	**(2,079)**
Utilized impairment	(38,440)	-	**(38,440)**	-	-	**-**
Other	7,718	-	**7,718**	(3,432)	15	**(3,417)**
Balance at December 31	**192,757**	**48,330**	**241,087**	**214,338**	**53,261**	**267,599**

Bank	2023 EUR '000			2022 EUR '000		
	Expected Credit Losses Stage 3	Expected Credit Losses Stage 1 and 2	Total	Expected Credit Losses Stage 3	Expected Credit Losses Stage 1 and 2	Total
Balance at January 1	**171,716**	**33,536**	**205,252**	**173,640**	**32,487**	**206,127**
Increase/(decrease) in expected credit losses	5,619	(4,059)	**1,560**	(3,065)	1,023	**(2,042)**
Net Foreign Exchange Loss	-	-	**-**	(293)	26	**(267)**
Merger effect NHB	47,339	18,853	**66,192**	-	-	**-**
Write-Offs	(38,440)	-	**(38,440)**	(2,079)	-	**(2,079)**
Other	6,523	-	**6,523**	3,512	-	**3,512**
Balance at December 31	**192,757**	**48,330**	**241,087**	**171,715**	**33,536**	**205,251**

10. LOANS TO AND RECEIVABLES FROM CUSTOMERS (continued)

Expected credit losses analysis for the Group and Bank in 2023 was as follows:

Group

EUR '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2023	**2,659,751**	**385,339**	**284,327**	**3,329,417**
New exposures	565,257	29,347	(1,481)	**593,123**
Derecognized or paid off assets (excluding write-offs)	(617,763)	(109,973)	(4,790)	**(732,526)**
Transfer into Stage 1	84,409	(83,752)	(657)	**-**
Transfer into Stage 2	(274,873)	283,734	(8,861)	**-**
Transfer into Stage 3	(6,501)	(29,771)	36,272	**-**
Write-offs	-	-	(38,992)	**(38,992)**
Balance at 31 December 2023	**2,410,280**	**474,924**	**265,818**	**3,151,022**
Expected credit losses at 1 January 2023	**(23,578)**	**(29,682)**	**(214,338)**	**(267,598)**
New exposures	(7,684)	(1,378)	(1,839)	**(10,901)**
Derecognized or paid off assets (excluding write-offs)	903	2,550	47	**3,500**
Transfer into Stage 1	(930)	883	47	**-**
Transfer into Stage 2	6,859	(7,457)	598	**-**
Transfer into Stage 3	(3,984)	11,111	(7,127)	**-**
Change in expected credit loss	11,830	(7,771)	(9,139)	**(5,080)**
Write-offs	-	-	38,992	**38,992**
Expected credit losses at 31 December 2023	**(16,584)**	**(31,744)**	**(192,759)**	**(241,087)**

Of which purchased or issued credit impaired financial assets (POCI) for the Group was as follows:

EUR '000	POCI
Balance at 1 January 2023, net	**13,311**
New assets	382
Repaid assets (excluding write-offs)	(1,813)
Collected	(1,222)
Balance at 31 December 2023, net	**10,658**

10. LOANS TO AND RECEIVABLES FROM CUSTOMERS (continued)

Bank

EUR '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2023	**1,826,856**	**265,348**	**219,851**	**2,312,055**
New exposures	491,759	55,568	2,652	**549,979**
Derecognized or paid off assets (excluding write-offs)	(617,763)	(26,221)	(4,133)	**(648,117)**
Transfer into Stage 1	84,409	(83,752)	(657)	-
Transfer into Stage 2	(179,841)	188,702	(8,861)	-
Transfer into Stage 3	9,447	(29,771)	20,324	-
Write-offs	-	-	(38,440)	**(38,440)**
Merger effect	795,412	105,050	75,082	**975,544**
Balance at 31 December 2023	**2,410,279**	**474,924**	**265,818**	**3,151,021**
Expected credit losses at 1 January 2023	**(15,894)**	**(17,641)**	**(171,716)**	**(205,251)**
New exposures	(4,340)	(3,045)	(1,839)	**(9,224)**
Derecognized or paid off assets (excluding write-offs)	903	1,667	-	**2,570**
Transfer into Stage 1	(930)	883	47	-
Transfer into Stage 2	5,958	(6,556)	598	-
Transfer into Stage 3	(5,781)	11,111	(5,330)	-
Change in expected credit loss	11,830	(7,771)	(5,619)	**(1,560)**
Write-offs	-	-	38,440	**38,440**
Merger effect	(8,330)	(10,393)	(47,339)	**(66,062)**
Expected credit losses at 31 December 2023	**(16,584)**	**(31,745)**	**(192,758)**	**(241,087)**

Of which purchased or issued credit impaired financial assets (POCI) for the Bank was as follows:

EUR '000	POCI
Balance at 1 January 2023, net	**4,904**
New assets	382
Repaid assets (excluding write-offs)	(1,893)
Other	(1,222)
Merger effect NHB	8,487
Balance at 31 December 2023, net	**10,658**

10. LOANS TO AND RECEIVABLES FROM CUSTOMERS (continued)

Expected credit losses analysis for the Group and Bank in 2022 was as follows:

Group

EUR '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	**2,474,293**	**272,458**	**335,820**	**3,082,571**
New exposures	971,190	111,530	5,554	**1,088,274**
Derecognized or paid off assets (excluding write-offs)	(661,831)	(105,026)	(63,602)	**(830,459)**
Transfer into Stage 1	68,193	(65,683)	(2,510)	**-**
Transfer into Stage 2	(164,709)	190,383	(25,674)	**-**
Transfer into Stage 3	(26,972)	(18,205)	45,177	**-**
Modification based changes (do not result with derecognition)	(411)	(115)	52	**(474)**
Write-offs	(3)	(2)	(10,490)	**(10,495)**
Balance at 31 December 2022	**2,659,750**	**385,340**	**284,327**	**3,329,417**
Expected credit losses at 1 January 2022	**(23,125)**	**(18,244)**	**(211,396)**	**(252,765)**
New exposures	(8,230)	(3,219)	(691)	**(12,140)**
Derecognized or paid off assets (excluding write-offs)	1,983	1,963	11,434	**15,380**
Transfer into Stage 1	(6,037)	5,045	992	**-**
Transfer into Stage 2	3,350	(4,675)	1,325	**-**
Transfer into Stage 3	575	2,214	(2,789)	**-**
Change in expected credit loss	7,906	(12,769)	(22,236)	**(27,099)**
Write-offs	-	1	9,023	**9,024**
Expected credit losses at 31 December 2022	**(23,578)**	**(29,684)**	**(214,338)**	**(267,600)**

10. LOANS TO AND RECEIVABLES FROM CUSTOMERS (continued)

Bank

EUR '000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2022	**1,643,576**	**169,560**	**284,530**	**2,097,666**
New exposures	555,632	67,495	5,554	**628,681**
Derecognized or paid off assets (excluding write-offs)	(298,910)	(54,132)	(58,461)	**(411,503)**
Transfer into Stage 1	50,460	(48,749)	(1,711)	**-**
Transfer into Stage 2	(115,422)	139,654	(24,232)	**-**
Transfer into Stage 3	(8,066)	(8,363)	16,429	**-**
Modification based changes (do not result with derecognition)	(411)	(115)	52	**(474)**
Write-offs	(3)	(2)	(2,310)	**(2,315)**
Balance at 31 December 2022	**1,826,856**	**265,348**	**219,851**	**2,312,055**
Expected credit losses at 1 January 2022	**(18,062)**	**(14,425)**	**(173,640)**	**(206,127)**
New exposures	(7,221)	(2,561)	(691)	**(10,473)**
Derecognized or paid off assets (excluding write-offs)	1,984	1,963	9,558	**13,505**
Transfer into Stage 1	(3,989)	3,839	150	**-**
Transfer into Stage 2	2,741	(5,355)	2,614	**-**
Transfer into Stage 3	354	1,022	(1,376)	**-**
Change in expected credit loss	8,299	(2,126)	(10,410)	**(4,237)**
Write-offs	-	1	2,079	**2,080**
Expected credit losses at 31 December 2022	**(15,894)**	**(17,642)**	**(171,716)**	**(205,252)**

Of which purchased or issued credit impaired financial assets (POCI) for the Group and Bank were as follows:

EUR '000	**POCI**
Balance at 1 January 2022, net	**20,394**
Arisen or purchased new assets	868
Repaid assets (excluding write-offs)	(16,369)
Amounts written off	11
Balance at 31 December 2022, net	**4,904**

11. ASSETS HELD FOR SALE

The Bank and Group initially recognize (classify) non-current assets as assets held for sale if its value be through sale, rather than used for the purpose of conducting business activities through depreciation. Such assets are classified at the lower of carrying amount or fair market value less costs to sell.

Subsequent measurement of assets held for sale is carried at the lower of carrying value and the current fair market value less costs to sell.

For fixed assets to be classified as assets held for sale, the following conditions must be met:

- the property must be immediately available for sale in its current condition (with conditions that are usual and common when taking over)
- there should be a very high possibility of sale
- there should be initiated an active programme to locate a buyer
- the offered sale price must be acceptable in relation to its current fair market value
- the sale should be determined as possible within one year from the date of asset classification, subject to exceptional circumstances beyond the Bank's control and where there is sufficient evidence that the Bank will act in accordance with the sale program and will not abandon the plan.

In case of events that may extend the period to perform the sale of the property does not preclude the classification of assets as held for sale if the circumstances beyond the control of the Bank and Group occur and if there is evidence that the Bank and Group will continue in line with the plans to continue selling the same.

The Bank and Group does not perform depreciation of assets held for sale. Impairment losses arising on the subsequent measurement of assets is recorded in the P&L report of the Bank and Group. Subsequent gains from increase in the fair value of previously impaired assets will be recognized in the P&L report at the time of sale. If it is determined that the non-current assets classified as held for sale do not meet the criteria for initial recognition of the Bank and Group does not recognize those assets as assets held for sale. Bank and Group does not recognize assets held for sale in the event that such property is sold. Gain or loss on sale of assets held for sale are recognized in the profit or loss account.

Movement in Asset held for sale was as follows:

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Balance at 1 January	**-**	**1.221**	**-**	**1.221**
Increase	-	4,247	-	4,247
Sale	-	(5,468)	-	(5,468)
Balance at 31 December	**-**	**-**	**-**	**-**

12. INVESTMENTS IN SUBSIDIARIES

Subsidiaries

Subsidiaries are all the companies managed by the Bank. Subsidiaries are consolidated, i.e. they cease to be consolidated from the moment the Bank acquires or loses control over them. Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated income statement and other comprehensive income from the date on which the Bank acquired control until the date of termination of control. Income and expenses of Jadranska banka p.l.c. (JABA) are included in the consolidated profit and loss account from the acquisition date. In separate financial reports of the Bank, investments into subsidiaries are stated at acquisition cost less impairment, if any. Accounting policies of subsidiaries are adjusted as needed to ensure accordance with the Group's policies.

Business combinations

Acquisition method is used for posting acquisitions of companies by the Group.
Acquisition date is defined as a date at which the acquirer gains control over the acquire.
The fee transferred for the acquisition of the subsidiary consists of:

- fair value of transferred assets
- liabilities incurred towards former owners of the acquired business
- equity shares issued by the Group
- the fair value of any asset or liability arising from the contingent consideration agreement, and
- the fair value of any prior equity interest in the subsidiary.

Acquired identifiable assets and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, initially measured at fair values on the date of acquisition. Transaction costs related to the acquisition and arising from the issuance of equity instruments are deducted from the capital; transaction costs arising from the debt issuance as part of a business merger are deducted from the book value of the debt, and all other transaction costs related to the acquisition are recognized as an expense.

The excess of the consideration transferred, the amount of any minority (non-controlling) shares in the acquired entity, and the fair value on the date of acquisition of any previous ownership share in the acquired entity above the fair value of the acquired net identifiable assets, is reported as goodwill.

If these amounts are less than the fair value of the net identifiable assets of the acquired business, the difference is recognized directly in the income statement as a bargain purchase after the Management Board reassesses whether it has identified all acquired assets and all assumed liabilities and contingent liabilities and reviews the adequacy of their measurement.

a) The Bank's subsidiaries are as follows:

	Industry	Domicile	Ownership on December 31, 2023	Ownership on December 31, 2022
HPB Invest Ltd	Investment Fund Management	Croatia	100%	100%
HPB-nekretnine Ltd	Real Estate Agency and Construction	Croatia	100%	100%
Nova hrvatska banka p.l.c.	Financial services	Croatia	-	100%
Pronam Nekretnine Ltd.	Real Estate Agency and Construction	Croatia	-	100%

12. INVESTMENTS IN SUBSIDIARIES (continued)

b) Investments in Subsidiaries that are fully consolidated in financial reports of the Group, are as follows:

	2023 EUR '000	2022 EUR '000
HPB Invest Ltd	664	664
HPB-nekretnine Ltd	632	632
Pronam Nekretnine Ltd.	-	2,700
Nova hrvatska banka p.l.c.	-	9,423
Total	**1,296**	**13,419**

MERGER OF NOVA HRVATSKA BANKA P.L.C. (SBERBANK P.L.C. in resolution)

The Bank acquired 100% of ''Sberbank p.l.c. in resolution'' shares (now Nova hrvatska banka p.l.c. ("NHB")). Sberbank p.l.c., Croatia fell into liquidity problems as a consequence of war in Ukraine along with the increased fear among depositors which started withdrawing deposits.

On 27 February 2022, the Single Resolution Board determined that Sberbank Europe AG in Austria and its subsidiaries in Slovenia and Croatia were failing, confirming the previous European Central Bank's assessment.

On 1 March 2022, the Single Resolution Board adopted resolution decisions for Slovenian and Croatian Sberbank subsidiaries. It has been decided that the resolution is to be carried out by sale. Until 14 April 2022, Sberbank p.l.c. was in resolution process, meaning the coordination of its operations were assumed by the Resolution Management Board.

At its session held on 13 April 2022, the Council of the Croatian National Bank ("CNB"), issued a decision ending the resolution process in ''Sberbank p.l.c. in resolution''. Under the instruction of the Single Resolution Board ("SRB"), the CNB transfers 615,623 shares representing 100% of the share capital of Sberbank p.l.c. to Hrvatska poštanska banka p.l.c. for the cash consideration of EUR 9.4 million/HRK 71 million which is determined by the SRB. Furthermore, CNB Council decided to grant prior approval to the appointments of Management Board of Sberbank – in resolution, effective from 14 April 2022.

HPB took control over the new member of HPB Group from 14 April 2022 and it started to operate as Nova hrvatska banka p.l.c.

Details of the purchase consideration, the net assets acquired and gain on bargain purchase are as follows:

	2022 EUR '000
Purchase consideration - Cash paid	9,424
Fair value of net asset acquired	144,637
Gain on bargain purchase	**135,213**

The purchase fee was determined by the Decision of the Single Resolution Board when adopting the resolution scheme for Sberbank p.l.c. Since the purchase consideration is below the fair value of the net assets acquired, the transaction resulted in a bargain purchase.

Gain on bargain purchase in the amount of EUR 135,213 thousand is recognized in 2022 in the profit and loss in 'Gain on bargain purchase'.

12. INVESTMENTS IN SUBSIDIARIES (continued)

Fair value of net asset acquired:

	2022 EUR '000
Cash and Cash Equivalents	30,035
Amounts Due from Banks	124,371
Mandatory Reserve with Croatian National Bank	57,656
Loans and Receivables from Banks	394
Financial Assets at Fair Value	88,221
Loans and Receivables from Customers	939,442
Deferred tax assets	6,065
Other Assets	3,414
Property, Equipment and asset with right of use	12,215
Intangible Assets	13,719
Deposits from Banks	(442,489)
Customer Deposits	(603,247)
Borrowings	(27,170)
Provisions for commitments and contingencies	(32,860)
Other Liabilities	(25,129)
Fair value of net asset acquired	**144,637**

Loans and Receivables

	Amounts Due from Banks EUR '000	Loans and Receivables from Banks EUR '000	Loans and Receivables from Customers EUR '000
Gross contractual amounts of Loans and Receivables from Customers	124,430	394	985,865
Less: the best estimate at the acquisition date of the contractual cash flows not expected to be collected	(58)	-	(46,424)
Fair value of Loans and Receivables from Customers	**124,372**	**394**	**939,441**

Purchase consideration – cash outflow

	2022 EUR '000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	9,423
Less: Balances acquired – Cash (Cash and Cash Equivalents and Amounts Due from Banks)	154,801
Net inflow of cash – investing activities	**145,378**

The acquired subsidiary contributed to the Group interest income at the effective interest rate and income from fees and commissions in the amount of EUR 31,569 thousand and EUR 8,590 thousand, respectively, and reduced profits for the period from the date of acquisition to December 31, 2022 by EUR 33,380 thousand. If the acquisition had taken place on January 1, 2022, the Group's interest income at the effective interest rate and fees and commissions for 2022 would have amounted to EUR 113,686 thousand and EUR 80,883 thousand, respectively, and the profit for 2022 would have been EUR 127,198 thousand.

On July 3, 2023, the Commercial Court in Zagreb issued a Decision on registration of the merger, which also ended the legal-formal merger process, while the operational aspect of the merger should be fully completed by the middle of 2024.

12. INVESTMENTS IN SUBSIDIARIES (continued)

MERGER OF COMPANY PRONAM NEKRETNINE LTD.

The Bank acquired a 100% ownership share in the company Pronam Nekretnine Ltd. July 4, 2022. By purchasing shares in the company Pronam Nekretnine Ltd. and claims that Sberbank Europe AG (SBAG) has against the companies Pronam Nekretnine Ltd. and Nova hrvatska banka p.l.c. the credit-deposit relationship of NHB, and thus HPB Group with SBAG, was completed.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	2022 EUR '000
Purchase consideration - Cash paid	2,699
Fair value of net asset acquired	2,697
Goodwill	**(2)**

Goodwill in the amount of EUR 2 thousand is recognized in 2022 in the statement of financial position under the item intangible assets.

Fair value of net asset acquired:	2022 EUR '000
Cash and Cash Equivalents	204
Receivables from customers and other receivables	84
Investment property	7,657
Long-term tangible and intangible assets	52
Deferred tax assets	12
Liabilities to suppliers and other liabilities	(16)
Loan liabilities	(5,296)
Fair value of net asset acquired	**2,697**

Purchase consideration – cash outflow	2022 EUR '000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	2,699
Less: Balances acquired – Cash (Cash and Cash Equivalents)	204
Net inflow of cash – investing activities	**2,495**

During 2022, for the purposes of the request for merger, the financial statements of the company Pronam as of 31 August 2022 were audited, which falls under non-auditing services in accordance with Article 5, Paragraph 1 of EU Regulation No. 537/2014.

On March 14, 2023, the Commercial Court in Zagreb issued a Decision on registration of the merger, which also ended the merger process.

13. PROPERTY, EQUIPMENT AND ASSETS WITH THE RIGHT TO USE

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

Recognition and Measurement

An item of property whose fair value can be measured reliably is subsequently carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The fair value of land and buildings is determined by the independent professional valuator.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the property's revaluation reserve relating to a previous revaluation of that asset. Depreciation is recognized in the P&L report on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

Equipment is measured at cost, less accumulated depreciation and accumulated impairment losses.

The estimated useful lives are as follows:

	2023	2022
Buildings	40 years	40 years
Computers	3 years	3 years
Furniture and Equipment	2-4 years	2-4 years
Motor Vehicles	5 years	5 years
Other Assets*	10 years	10 years
Leasehold improvements**	4-10 years	4-10 years

* Other assets refer to air conditioning and heating equipment
** Leasehold improvements are amortized in line with the duration of lease contract, average period of amortization is 5 to 7 years.

Depreciation methods and useful lives are reassessed at reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are included in the Profit and Loss Statement.

Impairment of Non-Financial Assets

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

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

13. PROPERTY, EQUIPMENT AND ASSETS WITH THE RIGHT TO USE (continued)

Group					Right of Use		
2023 EUR '000	**Land and Buildings**	**Computers, Equipment and Motor Vehicles**	**Leasehold improve-ments**	**Assets Under Construction**	**Building and land**	**Computers, equipment and motor vehicles**	**Total**
Balance at January 1, 2023	**49,532**	**36,990**	**16,643**	**1,113**	**22,697**	**5,082**	**132,057**
Additions	-	-	-	5,989	5,496	1,080	**12,565**
Write-offs and other reductions	-	(843)	(3,011)	-	(3,653)	(330)	**(7,837)**
Transferred into Use	2,657	3,244	204	(5,799)	-	-	**306**
Balance at December 31, 2023	**52,189**	**39,391**	**13,836**	**1,303**	**24,540**	**5,832**	**137,091**
Accumulated Depreciation and Impairment							
Balance at January 1, 2023	**(19,776)**	**(31,188)**	**(13,151)**	**-**	**(12,485)**	**(2,776)**	**(79,376)**
Depreciation Cost	(860)	(2,902)	(996)	-	(3,116)	(749)	**(8,623)**
Impairment	(71)	(31)	-	-	-	-	**(102)**
Write offs	-	777	2,850	-	2,490	135	**6,252**
Balance at December 31, 2023	**(20,707)**	**(33,344)**	**(11,297)**	**-**	**(13,111)**	**(3,390)**	**(81,849)**
Net Book Value							
Balance at January 1, 2023	**29,756**	**5,802**	**3,490**	**1,113**	**10,212**	**2,307**	**52,680**
Balance at December 31, 2023	**31,482**	**6,047**	**2,539**	**1,303**	**11,429**	**2,442**	**55,242**

13. PROPERTY, EQUIPMENT AND ASSETS WITH THE RIGHT TO USE (continued)

Group

2022 EUR '000	Land and Buildings	Computers, Equipment and Motor Vehicles	Leasehold improve-ments	Assets Under Construction	Right of Use: Building and land	Right of Use: Computers, equipment and motor vehicles	Total
Balance at January 1, 2022	**30,533**	**26,879**	**11,959**	**194**	**16,214**	**4,805**	**90,584**
Merger effect NHB	1,854	10,674	5,190	89	11,278	264	**29,349**
Merger effect Pronam	13,033	316	-	-	-	-	**13,349**
Increase / Revaluation of land	80	-	-	-	-	-	**80**
Increase/ Revaluation of buildings	1,442	-	-	-	-	-	**1,442**
Additions	-	398	103	6,574	2,007	74	**9,156**
Write-offs and other reductions	-	(4,357)	(681)	-	(1,339)	(61)	**(6,438)**
Other changes	-	-	-	-	(5,463)	-	**(5,463)**
Transferred into Use	2,590	3,080	70	(5,744)	-	-	**(4)**
Balance at December 31, 2022	**49,532**	**36,990**	**16,641**	**1,113**	**22,697**	**5,082**	**132,055**
Accumulated Depreciation and Impairment							
Balance at January 1, 2022	**(12,918)**	**(23,162)**	**(8,322)**	**-**	**(7,379)**	**(1,967)**	**(53,748)**
Merger effect NHB	(762)	(8,460)	(4,102)	-	(3,662)	(148)	**(17,134)**
Merger effect Pronam	(5,377)	(263)	-	-	-	-	**(5,640)**
Depreciation Cost	(719)	(2,550)	(1,116)	-	(3,088)	(718)	**(8,191)**
Impairment	-	(679)	(137)	(62)	-	-	**(878)**
Increase	-	(154)	(79)	-	-	-	**(233)**
Other changes	-	-	-	-	1,398	-	**1,398**
Write-offs	-	4,080	605	62	246	58	**5,051**
Balance at December 31, 2022	**(19,776)**	**(31,188)**	**(13,151)**	**-**	**(12,485)**	**(2,775)**	**(79,375)**
Net Book Value							
Balance at January 1, 2022	**17,615**	**3,717**	**3,637**	**194**	**8,835**	**2,838**	**36,836**
Balance at December 31, 2022	**29,756**	**5,802**	**3,490**	**1,113**	**10,212**	**2,307**	**52,680**

Assets under construction as of 31 December 2023 refer to investments in equipment and construction objects at purchase cost of EUR 1,113 thousand (2022: EUR 194 thousand). The carrying amount of the land owned by the Group as of December 31, 2023, amounts to EUR 2,609 thousand (2022: EUR 2,609 thousand). During 2023, a transfer from intangible assets in preparation to tangible assets in use for the Group and the Bank was carried out in the amount of EUR 306 thousand.

13. PROPERTY, EQUIPMENT AND ASSETS WITH THE RIGHT TO USE (continued)

Bank					**Right of Use**		
2023 EUR '000	**Land and Buildings**	**Computers, Equipment and Motor Vehicles**	**Leasehold improve-ments**	**Assets Under Construction**	**Building and land**	**Computers, equipment and motor vehicles**	**Total**
Balance at January 1, 2023	**34,610**	**28,811**	**11,435**	**958**	**16,721**	**4,834**	**97,369**
Merger effect Pronam Nekretnine	7,657	291	-	-	-	-	**7,948**
Merger effect Nova hrvatska banka	2,796	8,492	5,231	27	5,346	138	**22,030**
Additions	-	-	-	4,437	4,380	984	**9,801**
Write-offs and other reductions	-	(803)	(3,011)	-	(2,146)	(134)	**(6,094)**
Transferred into Use	2,235	2,538	(348)	(4,119)	-	-	**306**
Balance at December 31, 2023	**47,298**	**39,329**	**13,307**	**1,303**	**24,301**	**5,822**	**131,360**
Accumulated Depreciation and Impairment							
Balance at January 1, 2023	**(13,613)**	**(24,118)**	**(8,570)**	**-**	**(9,408)**	**(2,642)**	**(58,351)**
Depreciation Cost	(871)	(2,434)	(820)	-	(2,384)	(720)	**(7,229)**
Impairment	2	-	-	-	-	-	**2**
Reclassification and prior year corrections	(529)	-	529	-	-	-	**-**
Merger effect Pronam Nekretnine	-	(256)	-	-	-	-	**(256)**
Merger effect Nova hrvatska banka	(805)	(7,229)	(4,756)	-	(2,529)	(52)	**(15,371)**
Write offs	-	738	2,849	-	1,328	35	**4,950**
Balance at December 31, 2023	**(15,816)**	**(33,299)**	**(10,768)**	**-**	**(12,993)**	**(3,379)**	**(76,255)**
Net Book Value							
Balance at January 1, 2023	**20,997**	**4,693**	**2,865**	**958**	**7,313**	**2,192**	**39,018**
Balance at December 31, 2023	**31,482**	**6,030**	**2,539**	**1,303**	**11,308**	**2,443**	**55,105**

13. PROPERTY, EQUIPMENT AND ASSETS WITH THE RIGHT TO USE (continued)

Bank 2022 EUR '000	Land and Buildings	Computers, Equipment and Motor Vehicles	Leasehold improve-ments	Assets Under Construction	Right of Use Building and land	Right of Use Computers, equipment and motor vehicles	Total
Balance at January 1, 2022	**30,333**	**26,821**	**11,963**	**194**	**16,074**	**4,805**	**90,190**
Increase / Revaluation of land	80	-	-	-	-	-	**80**
Increase / Revaluation of buildings	1,607	-	-	-	-	-	**1,607**
Additions	-	393	79	5,960	1,737	29	**8,198**
Write-offs and other reductions	-	(935)	(681)	-	(1,090)	-	**(2,706)**
Transferred into Use	2,590	2,532	74	(5,196)	-	-	**-**
Balance at December 31, 2022	**34,610**	**28,811**	**11,435**	**958**	**16,721**	**4,834**	**97,369**
Accumulated Depreciation and Impairment							
Balance at January 1, 2022	**(12,918)**	**(23,112)**	**(8,322)**	**-**	**(7,300)**	**(1,967)**	**(53,619)**
Depreciation Cost	(695)	(1,783)	(770)	-	(2,108)	(675)	**(6,031)**
Increase	-	(154)	(79)	-	-	-	**(233)**
Write-offs	-	931	601	-	-	-	**1,532**
Balance at December 31 2022	**(13,613)**	**(24,118)**	**(8,570)**	**-**	**(9,408)**	**(2,642)**	**(58,351)**
Net Book Value							
Balance at January 1, 2022	**17,415**	**3,709**	**3,641**	**194**	**8,774**	**2,838**	**36,571**
Balance at December 31, 2022	**20,997**	**4,693**	**2,865**	**958**	**7,313**	**2,192**	**39,018**

Assets under constructions as at 31 December 2023 relate to investments in equipment and buildings at a cost of EUR 1,303 thousand (2022: EUR 958 thousand). The carrying amount of land owned by the Bank as of December 31, 2023 was EUR 2,609 thousand (2022: EUR 2,529 thousand).

There is no mortgage or other lien on the property owned by the Bank in favor of other parties.

Right of Use Asset (RoU) as of 31 December 2023 amounted to EUR 13,751 thousand (2022: EUR 9,505 thousand). Assets with the right of use are recognized in the Bank's functional currency and depreciated on a straight-line basis over the term of the lease.

14. INVESTMENT PROPERTY

Investment property

Investment properties include the Bank's investments in real estate with the intention of making a profit on the increase in value and / or earning from the lease. Real estate investments are initially recognized at cost, including transaction costs. All investments in real estate are valued at fair value. The fair value of such assets is estimated annually based on an independent valuer's estimate, and other relevant market factors and any gain or impairment loss from the change in fair value is recognized in the income statement as occurred. An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Repossessed asset in exchange for uncollected receivables

The Bank and Group initially recognize repossessed asset in accordance with IAS 40 “Investment Property” and account for it as described in part Investment property. In case that repossessed asset will be intended for sale and it meet the criteria of relevant IFRS 5 “Non-current Assets Held for Sale”, the asset will be recognized and accounted for as long-term tangible asset held for sale.

Only exceptionally, if repossessed asset will be used in regular business activities of the Bank and the Group, it can be decided, at acquisition, that the asset will be put in use and accounted for in accordance with IAS 16 “Property, plant and equipment”, as described in part Property and Equipment.

At initial recognition of repossessed asset in exchange for uncollected receivables, the acquisition cost will be considered the lower amount between the net book value of the financial asset, whereby the foreclosed asset or the asset received for the purpose of debt payment and the fair value of the acquired asset minus the costs of sale.

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Balance at January 1	**6,322**	**8,977**	**5,887**	**8,047**
Additions	122	385	122	385
Transfer into assets held for sale	-	(4,247)	-	(4,247)
Sale	(591)	(487)	(591)	(21)
Change in Fair Value	19	1,694	50	1,723
Balance at December 31	**5,872**	**6,322**	**5,468**	**5,887**

14. INVESTMENT PROPERTY (continued)

Assets taken over in exchange for uncollected receivables classified as investments in real estate as at 31.12.2023 has a gross book value of EUR 16,258 thousand. The value adjustment based on the assessment of value with the application of the discount factor of marketability related to real estate investment amounts to EUR 10,790 thousand (2022: EUR 11,255 thousand), so the net book value of these assets amounts to EUR 5,468 thousand (2022: EUR 5,887 thousand).

As of December 31, 2023, and December 31, 2022, all assets are in level 3 of the hierarchy of fair value measure. During the year there were no items that would be reclassified from level 3 indicator to level 1 indicator or vice versa by hierarchy of fair value measures.

Rental income amounted to EUR 250 thousand (2022: EUR 74 thousand). The maintenance costs of the acquired property in 2023 amounted to EUR 120 thousand.

The effects of the change in fair value are shown in position investment property in Note 34.

Disclosure of the investment valuation in real estate is presented in Note 3. Property is assessed in accordance with the Real Estate Estimates Act (OG 78/2015) and the related Rulebook on real estate valuation methods (OG 105/2015), according to law prescribed and appropriate methods consideration is given to a number of factors in determining its current market value. The valuation method has not changed during the year.

15. INTANGIBLE ASSETS

Intangible assets are carried at cost less accumulated amortization and impairment. Development costs are capitalized if all the requirements specified in IAS 38 "Intangible Assets" are met.

The Bank and Group intends to capitalize internal employee project costs in the future under a condition of meeting requirements by the IAS 38. Durability of the mentioned intangible assets will correspond to the estimated useful life and its future economic benefits.

Amortization is provided on a straight-line basis over the estimated useful life of an intangible asset. Maintenance costs are recognized as an expense when they are incurred.

Amortization methods and useful lives are reassessed at reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are included in the Profit and Loss Statement.

Amortization of intangible assets is provided on a straight-line basis over the estimated useful life of an asset as follows:

	2023	**2022**
Software	3-10 years	3-10 years
Licenses	3-10 years	3-10 years

Group

2023 **EUR '000**	**Software**	**Licenses**	**Assets Under Construction**	**Goodwill**	**Total**
Cost					
Balance as at January 1	**64,992**	**10,593**	**4,385**	**2**	**79,972**
Net increase	-	-	5,833	-	**5,833**
Transferred into Use	4,528	1,524	(6,358)	-	**(306)**
Write-offs	-	-	(382)	-	**(382)**
Balance as at December 31	**69,520**	**12,117**	**3,478**	**2**	**85,117**
Accumulated Amortization and Impairment					
Balance as at January 1	**(53,011)**	**(8,938)**	**-**	**-**	**(61,949)**
Depreciation cost	(4,993)	(875)	**-**	**-**	**(5,868)**
Impairment	(2,676)	-	**(125)**	**-**	**(2,801)**
Write-offs	-	-	**125**	**-**	**125**
Balance as at December 31	**(60,680)**	**(9,813)**	**-**	**-**	**(70,493)**
Net Book Value					
Balance as at January 1	**11,981**	**1,655**	**4,385**	**2**	**18,023**
Balance as at December 31	**8,840**	**2,304**	**3,478**	**2**	**14,624**

15. INTANGIBLE ASSETS (continued)

Group

2022 EUR '000	Software	Licenses	Assets Under Construction	Goodwill	Total
Cost					
Balance as at January 1	**40,590**	**10,042**	**1,320**	**-**	**51,952**
Merger effect NHB	23,831	-	4,568	-	**28,399**
Net increase	44	-	8,023	2	**8,069**
Transferred into Use	8,456	551	(9,007)	-	**-**
Write-offs	(7,929)	-	(519)	-	**(8,448)**
Balance as at December 31	**64,992**	**10,593**	**4,385**	**2**	**79,972**
Accumulated Amortization and Impairment					
Balance as at January 1	**(35,045)**	**(8,154)**	**-**	**-**	**(43,199)**
Merger effect NHB	(14,681)	-	-	**-**	**(14,681)**
Depreciation cost	(4,055)	(784)	**-**	**-**	**(4,839)**
Impairment	(7,160)	-	**-**	**-**	**(7,160)**
Write-offs	7,930	-	**-**	**-**	**7,930**
Balance as at December 31	**(53,011)**	**(8,938)**	**-**	**-**	**(61,949)**
Net Book Value					
Balance as at January 1	**5,545**	**1,888**	**1,320**	**-**	**8,753**
Balance as at December 31	**11,981**	**1,655**	**4,385**	**2**	**18,023**

Assets under construction as of December 31, 2023, refers to investments into the application software and licenses at purchased cost in the amount of EUR 3,478 thousand (2022: EUR 4,385 thousand), which are under construction due to future use by the Group. During 2023, a transfer from intangible assets in preparation to tangible assets in use for the Group and the Bank was carried out in the amount of EUR 306 thousand.

15. INTANGIBLE ASSETS (continued)

Bank

2023 EUR '000	**Software**	**Licenses**	**Assets Under Construction**	**Total**
Cost				
Balance as at January 1	**41,286**	**10,593**	**3,770**	**55,649**
Net increase	-	-	5,520	**5,520**
Transferred into Use	3,980	1,524	(5,810)	**(306)**
Merger effect NHB	22,868	-	511	**23,379**
Write-offs	-	-	(382)	**(382)**
Balance as at December 31	**68,134**	**12,117**	**3,609**	**83,860**
Accumulated Amortization and Impairment				
Balance as at January 1	**(36,305)**	**(8,939)**	**-**	**(45,244)**
Depreciation cost	(3,735)	(875)	-	**(4,610)**
Impairment	(2,590)	-	(125)	**(2,715)**
Merger effect NHB	(16,810)	-	-	**(16,810)**
Write-offs	-	-	125	**125**
Balance as at December 31	**(59,440)**	**(9,814)**	**-**	**(69,254)**
Net Book Value				
Balance as at January 1	**4,980**	**1,655**	**3,770**	**10,405**
Balance as at December 31	**8,694**	**2,303**	**3,609**	**14,606**

Bank

2022 EUR '000	**Software**	**Licenses**	**Assets Under Construction**	**Total**
Cost				
Balance as at January 1	**39,362**	**10,042**	**1,320**	**50,724**
Net increase	-	-	4,928	**4,928**
Transferred into Use	1,927	551	(2,478)	**-**
Write-offs	(3)	-	-	**(3)**
Balance as at December 31	**41,286**	**10,593**	**3,770**	**55,649**
Accumulated Amortization and Impairment				
Balance as at January 1	**(33,826)**	**(8,154)**	**-**	**(41,980)**
Depreciation cost	(2,483)	(784)	-	**(3,267)**
Write-offs	3	-	-	**3**
Balance as at December 31	**(36,306)**	**(8,938)**	**-**	**(45,244)**
Net Book Value				
Balance as at January 1	**5,536**	**1,888**	**1,320**	**8,744**
Balance as at December 31	**4,980**	**1,655**	**3,770**	**10,405**

Assets under construction as of December 31, 2023 mainly refer to investments into the application software and licenses at purchased cost in the amount of EUR 3,609 thousand (2022: EUR 3,770 thousand), which are under construction due to future use by the Group. Internally developed software is included in the position Software and in 2023 amounts to EUR 685 thousand (2022: EUR 785 thousand).

16. NET DEFERRED TAX ASSETS/LIABILITIES

a) Recognized Deferred Tax Assets and Liabilities (Group)

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Group in 2023 and 2022 are presented below:

Group EUR '000	2023	Recognized in the P&L Statement	Recognized in Equity and Reserves	Recognized in Other Comprehensive Income	2022
Deferred Tax Assets					
Loans and Advances to Customers	601	(60)	-	-	661
Other Provisions	1,825	(594)	(1,531)	-	3,950
Financial Assets	2,309	(1,832)	-	-	4,141
Deferred tax assets - impairment of land in Jurišićeva	630	-	-	-	630
Deferred tax assets - revaluation of own assets	18	(1,177)		-	1,195
Deferred tax assets - impairment of tangible and intangible assets	1,675	1,675	-	-	-
Deferred tax assets - IFRS 16	201	139	-	-	62
Revaluation reserve	-	-	(312)	-	312
Deferred Tax Liabilities					
Borrowings	(98)	(33)	-	-	(65)
Actuarial profit / loss - IAS 19	33	-	-	-	33
Revaluation reserve	(1,098)	-	-	-	(1,098)
Fair Value reserve	(779)	-	-	(83)	(696)
Deferred Tax Assets, Net	**5,317**	**(1,882)**	**(1,843)**	**(83)**	**9,125**

Group EUR '000	2022	Recognized in the P&L Statement	Recognized in Equity and Reserves	Recognized in Other Comprehensive Income	Merger effect NHB	Merger effect Pronam Nekretnine	2021
Deferred Tax Assets							
Loans and Advances to Customers	661	(65)	-	-	169	-	557
Other Provisions	3,950	(928)	(253)	-	4,866	12	253
Financial Assets	4,141	1,787	-	-	278	-	2,076
Deferred tax assets - impairment of land in Jurišićeva	630	-	-	-	-	-	630
Deferred tax assets - revaluation of own assets	1,195	1,163	-	-	14	-	18
Deferred tax assets - IFRS 16	62	(50)	-	-	68	-	44
Recognized tax loss	-	(358)	-	-	358	-	-
Revaluation reserves	312	-	-	-	312	-	-
Deferred Tax Liabilities							
Borrowings	(65)	3	-	-	-	-	(68)
Actuarial profit / loss - IAS 19	33	-	-	-	-	-	33
Revaluation Reserve	(1,098)	-	-	(296)	-	-	(802)
Fair Value Reserve	(696)	-	-	5,533	-	-	(6,229)
Deferred Tax Assets, Net	**9,125**	**1,552**	**(253)**	**5,237**	**6,065**	**12**	**(3,488)**

16. NET DEFERRED TAX ASSETS/LIABILITIES (continued)

b) Recognized Deferred Tax Assets and Liabilities (Bank)

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2023 and 2022 are presented below:

Bank EUR '000	2023	Recognized in the P&L Statement	Merger	Recognized in Other Comprehensive Income	2022
Deferred Tax Assets					
Loans and Advances to Customers	601	(127)	235	-	493
Other Provisions	1,824	(264)	2,088	-	-
Financial Assets	2,309	(1,324)	-	-	3,633
Deferred tax assets - impairment of land	630	-	-	-	630
Deferred tax assets - revaluation of own assets	18	-	-	-	18
Deferred tax assets - impairment of tangible and intangible assets	1,675	448	1,227	-	-
Deferred tax assets - IFRS 16	202	141	17	-	44
Deferred Tax Liabilities					
Borrowings	(98)	(33)	-	-	(65)
Actuarial profit / loss - IAS 19	33	-	-	-	33
Revaluation reserve	(1,098)	-	-	-	(1,098)
Fair Value reserve	(779)	-	-	(83)	(696)
Deferred Tax Assets, Net	**5,317**	**(1,159)**	**3,567**	**(83)**	**2,992**

Bank EUR '000	2022	Recognized in the P&L Statement	Recognized in Equity and Reserves	Recognized in Other Comprehensive Income	2021
Deferred Tax Assets					
Loans and Advances to Customers	493	(64)	-	-	557
Other Provisions	-	-	(253)	-	253
Financial Assets	3,633	1,557	-	-	2,076
Deferred tax assets - impairment of land	630	-	-	-	630
Deferred tax assets - revaluation of own assets	18	-	-	-	18
Deferred tax assets - IFRS 16	44	-	-	-	44
Deferred Tax Liabilities					
Borrowings	(65)	3	-	-	(68)
Actuarial profit / loss - IAS 19	33	-	-	-	33
Revaluation reserve	(1,098)	-	-	(296)	(802)
Fair Value reserve	(696)	-	-	5,533	(6,229)
Deferred Tax Assets, Net	**2,992**	**1,496**	**(253)**	**5,237**	**(3,488)**

17. OTHER ASSETS

	Group		Bank	
EUR '000	**2023**	**2022**	**2023**	**2022**
Fees Receivable	3,696	3,051	3,620	2,960
Items in Course of Collection*	7,893	8,707	7,893	7,496
Prepaid expenses	6,474	5,089	6,474	3,499
Other Receivables	16,870	9,889	16,787	9,768
Total Other Assets, Gross	**34,933**	**26,736**	**34,774**	**23,723**
Impairment Loss	(3,468)	(2,735)	(3,468)	(2,716)
Total	**31,465**	**24,001**	**31,306**	**21,007**

* The instruments used in the course of collection mostly refer to funds in the settlement, as well as other receivables in the settlement (retail, card transactions, payment transactions, effective sales etc.).

Movements in the impairment allowance

Movements in the impairment allowance on other assets were as follows:

	Group		Bank	
	2023 EUR '000	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Balance at January 1	**2,734**	**2,647**	**2,717**	**2,647**
Increase in Impairment Losses	734	316	398	159
Merger effect NHB	-	476	-	-
FX differences	-	2	353	2
Utilized impairment and other	-	(706)	-	(92)
Balance at December 31	**3,468**	**2,735**	**3,468**	**2,716**

18. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2023 EUR '000	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Negative fair value “swap”	16	31	16	31
Balance at December 31	**16**	**31**	**16**	**31**

19. DEPOSITS FROM BANKS

	Group		Bank	
	2023 EUR '000	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Demand Deposits	10,907	9,471	10,907	3,826
Term Deposits	40,416	40,181	40,416	25,000
Interest Payable Due	-	1	-	-
Interest Payable Not Yet Due	62	16	62	1
TOTAL	**51,385**	**49,669**	**51,385**	**28,827**

20. DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2023 EUR '000	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Demand Deposits				
Retail	1,457,565	1,600,102	1,457,565	1,420,356
Corporate	1,968,956	1,319,501	1,969,411	1,194,522
Restricted Deposits				
Retail	40,482	35,074	40,482	33,706
Corporate	280,722	640,450	280,722	639,626
	3,747,725	**3,595,127**	**3,748,180**	**3,288,210**
Term Deposits				
Retail	1,512,063	699,234	1,512,063	458,847
Corporate	602,052	294,309	602,052	147,021
	2,114,115	**993,543**	**2,114,115**	**605,868**
Interests Payable - Not Yet Due	10,201	2,841	10,201	833
Total current account and deposits from customers	**5,872,041**	**4,591,511**	**5,872,496**	**3,894,911**

Restricted deposits mainly relate to client deposits which are predetermined for special purposes, such as those based on court orders.

21. BORROWINGS

Borrowings

Interest-bearing borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between proceeds (net of transaction costs) and redemption value being recognized in the P&L report over the period of the borrowings as interest. The amount is subsequently reduced by not deferred portion of the fee paid at the point of loan approval.

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Short-term loans	30,010	-	30,010	-
Long-term loans from HNB	72,998	77,908	72,998	53,089
Long-term loans from banks	162,439	59,708	162,439	59,708
Long-term loans HBOR	201,477	183,599	201,477	113,970
Other long-term borrowings - leasing	14,519	13,181	14,519	10,106
Accrued Interests Due	79	27	79	27
Accrued Interests not Yet Due	2,768	1,039	2,768	635
Total	**484,290**	**335,462**	**484,290**	**237,533**

Leases

The contract is, or contains, lease if it conveys the right to use an underlying asset for the defined period of time in exchange for consideration. For such contracts the Bank recognizes right-of-use asset and lease liability.

Leases where the Bank and the Group are lessors in which they retain all the risks and awards related to the ownership, comprise all the tangible and intangible asset at purchase cost less accumulated depreciation or amortization. Rent income from operating lease is recognized in profit or loss statement using straight-line method during the lease period. Initial costs, directly related to the operating lease contract, the Bank recognizes over time in line with the recognition of rent income. For the duration of a lease contract, the Bank recognizes depreciation or amortization and impairment losses on the leased asset aligned with the amortization method applicable for the similar asset owned by the Bank.

For lease contracts where the Bank is a lessee, lease liability is measured at the present value of future lease payments, discounted at incremental discount rate of the lessee at the date of initial recognition. Lease liability is recognized in contracted currency.

21. BORROWINGS (continued)

On the other hand, the Bank as a lessee recognizes Right-of-Use Asset (RoU) at the date of initial recognition by which the right to use the underlying asset is measured at the amount of present value of future lease payments adjusted for any accruals and prepayments related to the lease contract recognized in the statement of financial position immediately before the date of initial recognition. The Right-of-Use Asset is recognized in Bank's functional currency and is depreciated on a straight-line bases over lease term.

Subsequent measurement of the lease liability includes an increase in book value to reflect interest on the lease obligation and a decrease in value that reflects the lease payments.

Bank opted for the practical expedient in terms of IFRS 16 “Leases” (i.e. Lease Liability and Right-of-Use Asset recognition) in the following cases:

- Short-term leases and
- Leases of low-value items.

In these cases, lease payments are recognized as an expense over the lease term.

The Bank decided to opt for the low-value items expedient and identified, based on the IASB opinion presented in the Basis of conclusion, that the order of magnitude would be USD 5,000 (value of underlying asset).

Bank has opted for the expedient for the intangible asset as well.

VAT is excluded from the calculation of the Right-of-Use Asset and the Lease Liability.

Lease liability is measured at the present value of future lease payments (not paid at that date), discounted at the interest rate implicit in the lease if it can be readily determined. Otherwise, the Bank uses its incremental borrowing rate.

Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow:

- the funds to obtain asset of a similar value to the right-of-use asset;
- over a similar term;
- with a similar security;
- in similar economic environment.

The Bank discloses the information about lease contracts in which it acts as a lessee, separately in the financial statements which comprise the following:

a) Depreciation charge for the right-of-use asset

b) The interest expense on the lease liability

c) Expenses related to the short-term leases (these expenses do not have to include expenses related to contracts with lease period shorter or equal to one month)

d) Expenses related to the leases of low-value items.

In accordance with IFRS 16 and accounting policies, Bank as the lessee use exceptional recognition for the lease of “low value” assets (EFTPOS devices) and short-term leases, i.e. leases with a 12-month or shorter period.

During the lease period in 2023, the Bank recognized EUR 161 thousand (2022: EUR 122 thousand) as an expense on a proportional basis for low-value asset leases, or EUR 1,022 thousand (2022: EUR 162 thousand) for short-term leases.

VAT is exempt from the calculation of assets with the right of use and lease obligations. The average weighted incremental borrowing rate on December 31, 2023, is 4.53 percent (December 31, 2022: 4.73 percent).

In 2023, the Bank recognized income in the amount of EUR 18 thousand (2022: EUR 123 thousand).

21. BORROWINGS (continued)

Interest expenses in accordance with IFRS 16 amount to EUR 537 thousand (2022: EUR 522 thousand), of which EUR 446 thousand refers to corporate (2022: EUR 447 thousand), while the rest of EUR 91 thousand (2022: EUR 75 thousand) refers to retail and SME.

Changes in Lease Liabilities

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Balance as of January 1	**12,986**	**11,953**	**9,910**	**11,953**
Merger effect NHB	-	3,967	3,002	-
New contracts	5,907	484	4,966	480
Modifications	382	1,317	382	1,317
Lease payments	(3,579)	(3,558)	(2,808)	(2,626)
Cessation	(1,422)	(1,220)	(967)	(1,214)
Exchange rate fluctuations and interest	74	43	35	-
Balance at December 31	**14,348**	**12,986**	**14,520**	**9,910**

Future minimal Lease Payments

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
up to one year	3,382	3,096	3,382	2,198
from one to five years	8,845	7,546	8,845	5,805
over five years	2,293	2,344	2,293	1,907
Total	**14,520**	**12,986**	**14,520**	**9,910**

21. BORROWINGS (continued)

Liabilities arising from financing activities

Group **EUR '000**	**Short-term loans**	**Long-term loans**	**Leases**	**Other**
Liabilities from financing activities as of January 1, 2022	**-**	**173,446**	**11,953**	**-**
Cash flows	78,937	(122,510)	(3,558)	(975)
Acquisition of subsidiaries	15,548	176,493	5,763	1,425
FX	(82)	(1)	44	-
Other non-cash movement	-	-	(1,021)	-
Liabilities from financing activities as of December 31, 2022	**94,403**	**227,428**	**13,181**	**450**
Cash flows	(64,393)	209,486	(3,579)	-
Other non-cash movement	-	-	4,917	2,397
Liabilities from financing activities as of December 31, 2023	**30,010**	**436,914**	**14,519**	**2,847**

Bank **EUR '000**	**Short-term loans**	**Long-term loans**	**Leases**	**Other**
Liabilities from financing activities as of January 1, 2022	**-**	**173,446**	**11,953**	**-**
Cash flows	-	53,982	(2,626)	-
Business combinations	-	-	1,797	-
Other non-cash movement	-	-	(1,018)	-
Liabilities from financing activities as of December 31, 2022	**-**	**227,428**	**10,106**	**-**
Cash flows	30,010	56,883	(2,808)	-
Business combinations	-	152,603	3,002	-
Other non-cash movement	-	-	4,219	2,847
Liabilities from financing activities as of December 31, 2023	**30,010**	**436,914**	**14,519**	**2,847**

22. PROVISIONS FOR COMMITMENTS AND CONTINGENCIES

The Bank and Group recognize a provision when it has a present obligation as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made of the obligation. Provisions are also made for off-balance sheet credit risk exposures on a portfolio basis.

Provision for liabilities and charges represent the best estimate of the expenditures needed to settle the present obligation at the reporting date. The management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Provisions are released only for such expenditure in respect of which provision are recognized at initial recognition. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Litigation Provisions	29,492	36,530	29,492	5,328
Provision for Contingent Liabilities	-	1,977	-	527
Provisions for Other Liabilities	4,599	5,070	4,590	4,611
Provisions for Off-Balance Sheet Exposures	6,329	8,352	6,329	7,688
Provisions for employees	1,161	927	1,161	917
Total	**41,581**	**52,856**	**41,572**	**19,071**

The Bank was sued in a large number of court cases, and provisions were made for them in the financial statements. The majority of active lawsuits against the Bank relate to CHF loan disputes arising from the "Potrošač" case.

In 2012, the "Potrošač" association sued a total of eight Croatian banks (among them legal ancestor of the Bank), claiming that consumers who in the period 2004-2008 borrowed loans related to CHF were not adequately informed by the banks about all the risks related to such loans, as well as that the variable interest rates applied in those contracts were illegal.

After a long-term procedure in which both the Constitutional and Supreme Courts were involved, the High Commercial Court of the Republic of Croatia issued a verdict that the Bank received on July 20, 2018, which is in favor of the Croatian association "Potrošač", and which essentially confirmed the first-instance decision of the Commercial Court in Zagreb (first-instance decision from 2013) against 8 banks. This procedure had a favorable outcome for the defendant, and the decision was received on September 24, 2019. As a consequence of the said unfavorable ruling, the number of new lawsuits by clients - consumers against the Bank related to CHF loans increased from year to year.

In individual disputes related to non-converted CHF loans, the positions of the courts and judicial practice were unambiguously profiled in favor of the plaintiff.

During 2023, compared to previous years, the number of lawsuits against the Bank related to CHF loans increased, as well as the number of final decisions against the Bank. The increased number of litigations resulted in a higher amount of provisions for court cases. The Bank specifically formed portfolio reservations for potential disputes related to non-converted CHF loans.

22. PROVISIONS FOR COMMITMENTS AND CONTINGENCIES (continued)

Regarding converted loans, on March 10, 2020, the Supreme Court issued a Decision in the so-called trial procedure, which was initiated due to the question of the validity of the agreement on the conversion of loans in Swiss francs. The Supreme Court declared the conversion of loans in Swiss francs valid and considers that the conversion agreements (including all their supplements) have valid legal effects regardless of the invalidity of the provisions on the interest rate or the currency clause in the basic loan agreements in Swiss francs. This judgment of the Supreme Court can reduce the pressure and significantly ease the position of the Bank in the individual lawsuits that are pending regarding the converted loans.

During 2022, the decision of the Court of the EU in case C-567/20 was also made - the Court found that the controversial case of conversion is a legal intervention in relation to which assumes that the contractual balance has been established, and that as such it is not subject to the application of Directive 93/13. The EU Court instructed our national courts to check whether the contractual balance has indeed been established, considering all the legal and factual circumstances that preceded the conversion.

During the allocation of the purchase price, the Group also considered potential liabilities related to legal claims for CHF, in accordance with the requirements of IFRS 3 Business Combinations, which may result in an outflow of funds in the future.

Movements in Provisions for commitments and contingencies

The movements in provisions for commitments and contingencies were as follows:

	Group		Bank	
	2023 EUR '000	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Balance at January 1	**52,856**	**11,690**	**19,071**	**11,681**
Increase/ (Decrease) in Provisions in the P&L Report	(6,745)	7,957	(5,364)	6,691
Merger effect NHB	-	32,860	29,698	-
Provisions used during the year	(4,874)	-	(2,177)	-
Other	344	349	344	699
Balance at December 31	**41,581**	**52,856**	**41,572**	**19,071**

23. OTHER LIABILITIES

	Group		Bank	
	2023 EUR '000	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Trade Accounts Payable	3,284	3,069	3,248	2,278
Salaries Amounts to Be Withheld from Salaries, Taxes and Contributions	3,980	4,142	3,931	2,945
Provisions for Retirement Benefits, Termination Benefits and Similar Liabilities	-	1,046	-	1,046
Fees Payable	1,328	714	1,328	708
Items in Course of settlement	14,563	17,269	14,563	13,161
Prepaid Deferred Income	3,501	366	3,501	366
Declared dividend liabilities	5,284	-	5,284	-
Liabilities for paid advances	-	8,978	-	3,207
Liabilities for HNB starter packages	-	5,150	-	5,150
Other Liabilities	23,327	12,697	23,194	6,978
Total	**55,267**	**53,431**	**55,049**	**35,839**

Obligations for starter packs of the CNB refers to starter packs of euro coins for retail and corporate.

24. EQUITY AND RESERVES

Share Capital and Reserves

Share capital is denominated in Croatian Kuna and stated at nominal value. The amount of fees paid on repurchase of share capital, including directly attributable costs, is recognized as a deduction from equity and classified as treasury shares.

Dividends

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

Retained Earnings/ Accumulated Losses

Profit for the year, retained after appropriations, is transferred to reserves, in accordance with the decision of the General Assembly.

Loss for the period is charged on the accumulated retained earnings. Any remaining loss is allocated in accordance with the regulations applicable to trading companies in the Republic of Croatia

24. EQUITY AND RESERVES (continued)

a) Share Capital and treasury shares reserve

As at 31 December 2023, the authorized, registered and fully paid-up share capital of the Bank amounted to EUR 161,970 thousand (2022: EUR 161,228 thousand) and included 2,024,625 (2022: 2,024,625) of the approved ordinary the nominal value of EUR 80 (2022: EUR 79.63 converted at a fixed conversion rate). Based on the Decision of the General Assembly from August 30, 2023, in September 2023, the adjustment of the share capital due to the introduction of the euro was entered in the court register of the Commercial Court in Zagreb by an increase of EUR 741,650.41 that charges legal reserves and changes to the provisions of the Statute.

In November 2023, in accordance with the Program for the purchase of its own shares, the Bank bought a total of 85 own shares, on the regulated market of the Zagreb Stock Exchange d.d. Considering that before the acquisition, the Bank did not have its own (treasury) shares, after the mentioned acquisition - on 17 November 2023, the Bank had a total of 85 own shares without voting rights, i.e. 0.004198% of the Bank's share capital.

For the aforementioned acquisition of its own shares, the Bank provided a consideration in the amount of EUR 15,529.00.

On December 7, 2023, the bank sold all 85 of its own shares outside the regulated market of the Zagreb Stock Exchange d.d. on the basis of the concluded Agreement on the transfer of shares and after the completed transfer, i.e. on December 31, 2023, the Bank no longer has its own shares in the treasury account.

Reserve for treasury shares as of 31.12.2023 amounts to EUR 594 thousand (2022: EUR 594 thousand).

The ownership structure is as follows:

	2023		2022	
	Paid-In Capital EUR '000	**Ownership**	**Paid-In Capital EUR '000**	**Ownership**
Republic of Croatia	72,723	44.90%	72,390	44.90%
Hrvatska Pošta p.l.c.	19,329	11.93%	19,240	11.93%
Croatian Deposit Insurance Agency (CDIA)	14,545	8.98%	14,479	8.98%
Croatian State Pension Insurance Fund (Ministry of Physical Planning, Construction and State Property)	14,185	8.76%	14,120	8.76%
Fund NEK	3,866	2.39%	4,398	2.73%
Others	37,322	23.04%	36,601	22.70%
Total	**161,970**	**100.00%**	**161,228**	**100.00%**

24. EQUITY AND RESERVES (continued)

b) Fair Value Reserve

The fair value reserve includes unrealized gains and losses on changes in the fair value of financial assets at fair value through other comprehensive income, net of tax.

The movements of fair value reserve during 2023 and 2022, for the Bank and the Group were as follows:

Group and Bank	2023 EUR '000	2022 EUR '000
Balance at January 1	**3,017**	**28,224**
Equity instruments in assets at other comprehensive income - net change in fair value	707	123
Net Unrealized (Loss)/Gain from Financial Assets at FV through OCI	-	(30,863)
Deferred tax relating to the change in the revaluation of financial assets at fair value through OCI	(83)	5,533
Balance at December 31	**3,641**	**3,017**

c) Revaluation Reserve

The revaluation reserve in the amount of EUR 5,004 thousand (2022: EUR 5,004 thousand), net of taxes, arises from the revaluation of the Bank's land and buildings. The movement of the revaluation reserve during the reporting period 2023 and 2022 is as follows:

Group and Bank	2023 EUR '000	2022 EUR '000
Balance at January 1	**5,004**	**3,656**
Decrease in the Revaluation Reserve on Depreciation of Assets	-	1,644
Deferred Tax Related to Revaluation Reserve	-	(296)
Balance at December 31	**5,004**	**5,004**

24. EQUITY AND RESERVES (continued)

d) Proposed Dividends

On November 2, 2023, the Government of the Republic of Croatia adopted a Decision on the amount, method and terms of payment of state-owned companies' funds into the State Budget of the Republic of Croatia for 2023, Class: 022-03/23-04/258, Registration number: 50301-05/31-23-3 (further: Decision of the Government of the Republic of Croatia), the application of which also applies to HPB, since the Republic of Croatia holds the majority of the Bank's shares.

In accordance with the Decision of the Government of the Republic of Croatia, at the proposal of the Bank's Management Board and Supervisory Board, the General Assembly of the Bank on December 21, 2023 passed the Decision on the payment of dividends from retained earnings in 2022, based on which the holders of ordinary shares with the designation HPB (formerly: HPB- R-A), dividend payable in the amount of EUR 2.61 per share at the expense of part of the retained profit in 2022 in the total amount of EUR 5,284,271.25. The right to dividend payment (claim) belongs to all shareholders of the Bank, holders of shares registered in their accounts of intangible securities in the computer system of the Central Depository & Clearing Company Inc on December 28, 2023 (record date). The day when the shares of the Bank without the right to dividend payment will be traded on the regulated market is December 27, 2023 (ex date). The claim for dividend payment is due on June 24, 2024 (payment date). The dividend payment will be made through the Central Depository & Clearing Company (CDCC), upon fulfilment of depositor protection requirements from Article 312a of the Law on Credit Institutions, since the proposed dividend payment in the total amount of EUR 5,284,271.25 represents a reduction of the regular share capital.

Dividend liabilities are not recognized until they are approved at the Shareholders' General Meeting. In 2022 there were no dividend payments.

e) Legal and other reserves

The Bank is obliged to form a legal reserve by allocating 5% of net profit for the year, until the reserves reach 5% of the share capital.

Statutory reserves amount to EUR 6,790 thousand for the Group and the Bank (2022: EUR 6,651 thousand for the Group and the Bank), prior to the distribution of result achieved in 2022, which is reported in the retained earnings position.

Other reserves for the Bank and the Group as at 31 December 2023 amount to EUR 80,614 thousand (2022: EUR 80,614 thousand).

f) Retained earnings

In August 2023, the General Assembly of the Bank passed a Decision to transfer part of the profit from 2022 in the amount of EUR 125,976 thousand to retained earnings within capital and reserves (2022: EUR 25,483 thousand) after allocating the legal reserve.

g) Financial Leverage Ratio

In line with article 429 of Regulation EU 575/ 2013 calculation of financial leverage ratio between common Tier-1 equity and total exposure is mandatory for each credit institution.

Financial leverage ratio for the Bank is as follows:

	2023	2022
Financial Leverage Ratio (%)	6.95	7.37

25. EARNINGS PER SHARE

The Bank presents earnings or loss per share data for its ordinary shares. Earnings/loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

To calculate earnings per share, earnings are accounted for as the profit / loss for the current period intended for the shareholders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares in circulation during the year after the decrease of the number of regular treasury shares. The weighted average number of ordinary shares used to calculate the basic / diluted earnings per share would be the same as the number used to calculate the basic and diluted earnings per share, or 2,024,625 (2022: 2,024,625), as shown below:

	2023 EUR '000	2022 EUR '000
Current Year Profit/ Distributable to the Bank's Owners	80,615	17,600
Profit Used to Calculate Basic and Diluted Earnings Per Share	**80,615**	**17,600**
Weighted Average Ordinary Shares Outstanding Used to Calculate Basic and Diluted Earnings Per Share	2,024,625	2,024,625
Basic and Diluted Earnings Per Share	**39.82 €**	**8.69 €**

INTEREST INCOME AND EXPENSE (NOTE 26 AND 27)

Interest income and expense are recognized in the Profit and loss ("P&L") report as they accrue for all interest-bearing financial instruments, including those measured at amortized cost, at fair value through other comprehensive income, using the effective interest rate method.

Such income and expense are presented as interest and similar income or interest expense and similar charges in the P&L report. Interest income and expense also includes fee and commission income and expense in respect of loans provided to customers or borrowings from other banks, premium or discount amortization, and other differences between the initial carrying amount of an interest-bearing financial instrument and its value at maturity, recognized on a basis of effective interest rate. Interest income and expense on all trading assets and liabilities are presented as interest income or expense.

For financial assets measured at amortized cost, calculation the effective interest rate is based on gross book value, with the exemption of the following:

(a) purchased or originated credit impaired financial assets. For such financial assets the Bank applies to the amortized cost of financial assets on initial recognition the effective credit impaired interest rate;

(b) financial assets that is neither purchased nor originated credit impaired financial assets, but afterwards became credit impaired financial assets. For such financial assets the Bank in the following reporting periods to the amortized cost of financial assets applies the effective interest rate.

Modification of contracted cash flows

If contracted cash flows from financial assets were to be renegotiated or modified in some other manner, whereby such new deal or modification do not lead to derecognition of the financial assets, the Bank and the Group recalculate gross book value of the financial assets and in the profit and loss recognize the gain or loss. Gross book value of financial assets is recalculated as present value of renegotiated or modified contracted cash flows discounted by initial effective interest rate of the financial assets (for purchased or originated credit impaired financial assets discounted by effective credit impaired interest rate) or if necessary, by credit impaired effective interest rate. Book value of modified financial assets is impaired by arisen costs or fees, which are depreciated during the remaining period of the modified financial assets. When the modification of conditions or modification of contracted future cash flows leads to derecognition of existing financial assets and at the same time there are impairment indicators of new financial assets, it represents the purchased or originated credit impaired financial assets (so called POCI). Once classified into the POCI category, the assets remain in it for its remaining lifetime.

26. INTEREST INCOME

a) Income Analysis by Product:

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Loans to Customers				
- Corporate	47,956	25,631	40,882	19,335
- Individuals	69,590	63,695	54,078	40,910
	117,546	**89,326**	**94,960**	**60,245**
Loans to Banks	58,425	2,652	18,239	(3,625)
Debt Securities	15,383	11,066	79,490	72,293
Bills of Exchange	18	13	28	86
Total	**191,372**	**103,057**	**170,655**	**73,220**

b) Income Analysis by Source:

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Corporate	33,997	18,745	27,192	13,079
Retail	69,589	63,694	54,078	40,910
Government and Public Sector	29,245	17,211	28,428	16,280
Banks and Other Financial Institutions	58,425	3,044	60,854	2,812
Others	116	363	103	139
Total	**191,372**	**103,057**	**170,655**	**73,220**

27. INTEREST EXPENSE

a) Expense Analysis by Product

	Group		Bank	
	2023 EUR '000	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Borrowings	10,010	2,052	8,181	1,628
Customer Deposits				
- Corporate	7,634	1,225	6,870	994
- Retail	8,152	2,308	7,336	787
	15,786	**3,533**	**14,206**	**1,781**
Deposits from Banks	(1,313)	972	451	308
Other	4,171	817	3,344	-
Total	**28,654**	**7,374**	**26,182**	**3,717**

b) Expense Analysis by Recipient

	Group		Bank	
	2023 EUR '000	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Corporate	8,077	1,209	7,290	810
Retail	8,255	2,330	7,427	787
Government and Public Sector	3,363	13	2,621	13
Banks and other Financial Institutions	8,714	3,488	8,646	2,101
Others	245	334	198	6
Total	**28,654**	**7,374**	**26,182**	**3,717**

FEES AND COMMISSIONS INCOME AND EXPENSE (NOTE 28 AND 29)

Fee and commission income and expense arise on financial services provided by the Bank and received by the Bank, and mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by and to the Bank and the Group. Fee and commission income and expense are recognized in the P&L report when the related service is performed. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognized over the term of the commitment. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank and 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 recognized based on the applicable service contracts.

Asset management fees related to investment fund management are recognized 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.

28. FEES AND COMMISSIONS INCOME

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Cash Payment Operations	29,682	28,882	29,589	28,654
Non-Cash Payment Operations	8,700	8,866	8,345	8,308
Retail and Credit Card Operations	29,833	31,695	26,862	27,216
Letters of Credit, Guarantees and Foreign-Exchange Payment Operations	2,912	2,553	2,472	1,903
Other Fees and Commissions Income	5,179	5,928	3,876	3,251
Total	**76,306**	**77,924**	**71,144**	**69,332**

29. FEES AND COMMISSIONS EXPENSE

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Cash Payment Operations	26,797	25,816	26,781	25,816
Non-Cash Payment Operations	2,372	1,941	1,840	1,720
Card Operations	10,196	10,790	9,655	10,278
Other Fees and Commission Expense	4,030	4,852	3,510	4,048
Total	**43,395**	**43,399**	**41,786**	**41,862**

30. NET GAINS/(LOSSES) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Gains less losses from financial instruments at fair value through profit or loss include unrealized and realized gains and losses arising from derivative financial instruments, trading debt securities and other financial instruments designated at fair value through profit or loss.

	Group		Bank	
	2023 EUR '000	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Realized Gains/(Losses)				
- Debt securities	(123)	9	35	9
- Equity Securities	(47)	-	(47)	-
- Forward Contracts, OTC	414	962	414	82
	244	**971**	**402**	**91**
Unrealized Gains/(Losses)				
- Debt securities	1,196	(7,903)	1,196	(7,367)
- Equity Securities	1,608	28	1,608	28
- Investment Funds	490	(1,547)	490	(1,547)
- Forward Contracts, OTC	536	223	536	18
	3,830	**(9,199)**	**3,830**	**(8,868)**
- Profit and loss from FX trading	2,346	8,092	2,228	7,714
- Income from dividends on equity securities held for trading	142	-	142	-
Gains/losses on non-trading financial assets measured at fair value through profit or loss, net	201	-	201	-
Total	**6,763**	**(136)**	**6,803**	**(1,063)**

31. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Gains less losses from financial instruments at fair value through other comprehensive income include realized gains and losses from financial instruments measured at fair value through other comprehensive income.

Assets measured at fair value through other comprehensive income include debt and equity securities.

Profit or loss on financial assets that are measured at fair value through other comprehensive income are recognized in other comprehensive income, with the exception of gains or losses from impairment and gains and losses from exchange differences, until the financial asset is derecognized or reclassified. If a financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

In the case of equity shares from the portfolio that are valued at fair value through other comprehensive income, a significant or longer-term decline in the fair value of the security below its purchase value is considered objective evidence of impairment.

Objective impairment evidence may include:

- Significant financial difficulties for issuer or other contract party, or
- Contract breach, for example late payments or non-payment of principal and interest, or
- Likely bankruptcy start or financial restructuring of the debtor, or
- Disappearance of active market for concerned financial assets due to financial difficulties.

If a financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

	Group		Bank	
	2023 EUR '000	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Realized Gains on Disposal of Debt Securities at Fair Value through Other Comprehensive Income	-	281	-	281
Dividend income on equity securities held at fair value through other comprehensive income	20	-	20	-
Total	**20**	**281**	**20**	**281**

32. OTHER OPERATING INCOME

Dividend income on equity investments is recognized in the P&L report when the right to receive dividends is established.

	Group		Bank	
	2023 EUR '000	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Dividend Income	822	154	822	338
Income from sale of asset	90	418	67	128
Net profit/loss on exchange rate differences from the revaluation of monetary assets and liabilities	(1,058)	(1,302)	(1,044)	(408)
Other income	8,038	1,908	7,672	991
Total	**7,892**	**1,178**	**7,517**	**1,049**

33. GENERAL AND ADMINISTRATIVE EXPENSES

Provisions for Severance Payments and Jubilee Awards

In calculating provisions for severance payments and jubilee awards, the Bank and Group discounts expected future cash flows in respect of the liabilities, using discount rates that, in opinion of the Bank's management, best represent the time value of money. Actuarial gains or losses for long-term benefits are recognized in profit and loss statement, whereas interest expense and current period employee expenses are recognized in profit or loss statement.

Defined Pension Contributions

The Bank and Group pays contributions to pension-insurance funds on a mandatory, contractual basis. The Bank and Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

	Group		Bank	
	2023 EUR '000	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Materials and Services	29,680	20,382	24,458	18,902
Administration and Marketing	3,091	2,579	2,485	1,645
Postage and Telecommunications	3,631	3,472	3,620	3,257
Employee Expenses	51,886	45,277	44,256	34,693
Deposit Insurance	1,640	4,243	1,615	3,287
Other General and Administrative Expenses	8,126	16,314	7,522	3,677
Total	**98,054**	**92,267**	**83,956**	**65,461**

33. GENERAL AND ADMINISTRATIVE EXPENSES (continued)

Employee Expenses

	Group		Bank	
	2023 EUR '000	**2022 EUR '000**	**2023 EUR '000**	**2022 EUR '000**
Net Salaries and Other Employee Expenses	27,636	25,423	23,462	19,144
Taxes and Contributions (including contributions payable by employers)	18,847	17,919	15,966	13,686
Net provisions for severance pay, jubilee awards, employee vacations	361	(540)	361	(504)
Other Fees to Employees	5,001	2,449	4,453	2,352
Fees to Supervisory Board Members	41	26	14	15
Total	**51,886**	**45,277**	**44,256**	**34,693**

As of December 31, 2023, the Bank had 1,727 employees (2022: 1,321) and the Group had 1,752 employees (2022: 1,805).
The costs of mandatory contributions for pension insurance in the second pillar in 2023 amount to EUR 1,708 thousand (2022: EUR 1,367 thousand).

34. IMPAIRMENT LOSSES ON LOANS TO AND RECEIVABLES FROM CUSTOMERS AND OTHER ASSETS

		Group		Bank	
	Notes	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Expected credit losses Stage 3					
Loans to and Receivables from Banks		-	1,314	-	-
Loans to and Receivables from Customers	10	(12,158)	(7,956)	(5,549)	3,079
Financial Assets at FV through P&L	7	-	(7)	-	(7)
Other Assets	17	(673)	(224)	(494)	(67)
Net (loss)/gains from (write-off)/collection of Placements Written-Off in Previous Years		30	(7)	27	(8)
Total (expense)/income Stage 3		**(12,801)**	**(6,880)**	**(6,016)**	**2,997**
Expected credit losses Stage 1 and 2					
Loans to and Receivables from Customers	10	6,740	(15,003)	3,493	(4,673)
Financial Assets at FV through OCI	8	-	2,807	-	2,815
Financial Assets at Amortized Cost	9	133	1,219	148	1,219
Other Assets		24	-	24	-
Total (expense)/income Stage 1 and 2		**6,897**	**(10,977)**	**3,665**	**(639)**
Total expected losses					
Loans to and Receivables from Banks		-	1,314	3,493	-
Loans to and Receivables from Customers	10	(5,418)	(22,960)	(5,549)	(1,592)
Financial Assets at FV through P&L	7	-	(7)	-	(7)
Financial Assets at FV through OCI	8	-	2,807	-	2,815
Financial Assets at Amortized Cost	9	133	1,219	148	1,219
Other Assets	17	(649)	(223)	(470)	(69)
Gains from Recovery of Placements Written-Off in Previous Years		30	(7)	27	(8)
Total expected losses from financial assets		**(5,904)**	**(17,857)**	**(2,351)**	**2,358**
Non-financial assets losses					
Investment property	14	19	1,694	50	1,723
Tangible and intangible assets	13	(2,887)	(8,515)	(2,714)	43
Total (Expense)/ Income		**(8,772)**	**(24,678)**	**(5,015)**	**4,124**

Identified losses on an individual basis related to financial assets at fair value through profit or loss relate to loans and receivables from customers who failed the SPPI test.

35. INCOME TAX

Corporate tax expense represents the sum of the tax currently payable and deferred tax.

Current tax payable is based on taxable profit for the year. Taxable profit differs from ‘profit before tax’ as reported in the P&L report and report of other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in financial reports and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Determination of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank and Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Measurement of deferred tax liabilities and assets reflects the amount that the Bank and Group expects, at the end of the financial reports date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified in the report of financial position as non-current assets and/ or non-current liabilities. Deferred tax assets are recognized only to the extent that it is probable that the related tax benefit will be realized. At each reporting date, the Bank and Group reviews the unrecognized potential tax assets and the carrying amount of the recognized tax assets.

35. INCOME TAX (continued)

Total recognized corporate tax expense, calculated at the corporate tax rate of 18%, comprises corporate tax expense recognized in the P&L report and movements in deferred tax recognized in equity, as follows:

Income Tax Expense Recognized in the P&L Statement

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Income tax	(17,250)	(5,153)	(16,527)	(4,924)
Recognized net deferred tax assets	4,990	-	4,274	-
Deferred tax income/(expense) related to the generation and reversal of temporary differences	(1,876)	1,552	(1,160)	1,497
Total income tax	**(14,136)**	**(3,601)**	**(13,413)**	**(3,427)**

The movement of deferred tax assets and liabilities with recognition effects in other comprehensive income and the income statement is set out in Note 16 Net deferred tax assets / liabilities.

Reconciliation of Income Tax Expense

The reconciliation between income tax expense and profit before tax is shown as follows:

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Profit Before Taxation	*97,223*	*130,267*	*94,028*	*21,027*
Income Tax at the Rate of 18%	(17,500)	(23,448)	(16,925)	(3,785)
Tax Non-Deductible Expenses	(2,502)	(1,165)	(2,480)	(997)
Non-Taxable Income	2,734	25,750	2,879	1,355
Recognized tax losses	4,358	54	4,273	-
Recognized Deferred Tax Asset	(1,160)	12	(1,160)	-
Unrecognized Deferred Tax Asset	(66)	(4,804)	-	-
	(14,136)	**(3,601)**	**(13,413)**	**(3,427)**
Effective Income Tax Rate	*14.54%*	*2.76%*	*14.26%*	*16.30%*

Recognized Deferred Tax in Respect of Tax Losses Disposable in Prospective Periods

At the end of 2023, the Bank has no deferred tax assets based on previous losses.

36. CONCENTRATION OF ASSETS AND LIABILITIES

The assets and liabilities of the Bank are significantly concentrated on amounts directly due from and to the Republic of Croatia. The amounts at year end, including accrued interest, are as follows:

	Notes	Group 2023 EUR '000	Group 2022 EUR '000	Bank 2023 EUR '000	Bank 2022 EUR '000
Giro Account with the CNB	5	56,496	1,306,514	56,496	1,179,044
Bonds of the Republic of Croatia		699,512	641,768	699,512	560,168
Treasury Bills of the Croatian Ministry of Finance		148,284	149,951	148,284	149,951
Loans to the Republic of Croatia		367,221	206,476	367,221	200,363
Deposits from the Republic of Croatia		(1,412,673)	(898,475)	(1,412,673)	(898,475)
Total		**(141,160)**	**1,406,234**	**(141,160)**	**1,191,051**

The Bank's exposure towards local government and state institutions not directly funded by the State Budget (excluding state owned companies) is presented below:

	Group 2023 EUR '000	Group 2022 EUR '000	Bank 2023 EUR '000	Bank 2022 EUR '000
Loans	80,714	215,016	80,714	215,016
Deposits	(172,161)	(97,894)	(172,161)	(97,759)
Total	**(91,447)**	**117,122**	**(91,447)**	**117,257**

37. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are initially recognized at fair value and subsequently measured at amortized cost. Cash and cash equivalents comprise cash balances on hand, cash deposited with CNB, placements with other banks with original maturities of three months or less, and items in course of collection.

	Notes	Group 2023 EUR '000	Group 2022 EUR '000	Bank 2023 EUR '000	Bank 2022 EUR '000
Cash and Amounts Due from Banks	5	3,103,821	1,472,087	3,103,814	1,316,539
Deposits with Banks with Original Maturities of Up to 90 Days		3,656	19,154	3,656	184,639
Items in Course of Collection	17	7,893	8,707	7,893	7,496
Total		**3,115,370**	**1,499,948**	**3,115,363**	**1,508,674**

38. CONTINGENT LIABILITIES

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

	Group		Bank	
	2023 EUR '000	2022 EUR '000	2023 EUR '000	2022 EUR '000
Guarantees	177,987	294,729	177,987	124,807
Letters of Credit	76	701	76	154
Undrawn Lending Commitments	406,624	402,105	406,624	351,327
Total	**584,687**	**697,535**	**584,687**	**476,288**

As of December 31, 2023, the Bank and Group recognized the provision based on off-balance sheet risks arising from the issuance of guarantees, letters of credit and unused loans in the amount of EUR 6,329 thousand (2022: Bank EUR 7,688 and Group EUR 8,352 thousand) included in Provisions for commitments and contingencies (Note 22).

39. DERIVATIVE INSTRUMENTS AND DEALINGS IN FOREIGN CURRENCIES

The Bank and Group uses derivative financial instruments to hedge economically its exposure to currency risk and interest rate risk arising from operating, financing and investing activities. In accordance with its investment policies, the Bank and Group does not hold or issue derivative financial instruments for the purpose of speculative trading. Hedge accounting has not been applied and consequently, all derivative agreements are classified as financial instruments at fair value through profit or loss.

Derivative financial instruments include foreign currency agreements, forward agreements, futures and other financial derivatives and are initially recognized at fair value which is the value of consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the quoted market price or, if more appropriate, based on the discounted cash flow. All derivative instruments are presented as assets if their fair value is positive and as liabilities if their fair value is negative.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed as an embedded derivative. Except as required to the contrary by the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and when the hybrid contract is not itself carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealized gains and losses recognized in the P&L report, unless there is no reliable measure of their fair value.

39. DERIVATIVE INSTRUMENTS AND DEALINGS IN FOREIGN CURRENCIES (continued)

At year end 2023 the Bank and Group had the following derivative contracts, accounted for as trading instruments, open at year-end:

Group and Bank	**Contracted Amount, Remaining Life**					**Fair Value**	
2023 EUR '000	**Up to 3 months**	**3 to 12 months**	**1-5 years**	**over 5 years**	**Total**	**Assets**	**Liabilities**
Cross Currency Swap Contracts – OTC	100,701	-	-	-	**100,701**	613	16
Total	**100,701**	**-**	**-**	**-**	**100,701**	**613**	**16**

40. RELATED PARTY TRANSACTIONS

The Bank is the parent of the Hrvatska Poštanska Bank Group.

Key shareholders of the Bank are the Republic of Croatia as the largest shareholder with an ownership stake of 44.90 percent, and Hrvatska Pošta p.l.c. (“HP”) with a stake of 11.93 percent.

Other significant state-owned shareholders include: State agency for deposits insurance and bank resolution (“HAOD”), the Croatian Pension Insurance Institute (“HZMO”) and Fund for financing the decommissioning of the Krško Nuclear Power Plant and the disposal of radioactive waste and spent nuclear fuel (“NEK fund”). These shareholders together own 77.04% of the Bank's shares (2022: 77.35%). The remaining 22.96% (2022: 22.65%) are publicly traded.

a) Key Transactions with Related Parties

Hrvatska Pošta p.l.c. ("HP") performs domestic payment transactions for and on behalf of the Bank. Exposure to Hrvatska Pošta p.l.c. mainly comprises fees receivable based on domestic payment transactions performed for and on behalf of the Bank. Liabilities towards Hrvatska Pošta p.l.c. mainly relate to demand and term deposits. Income and expenses mostly relate to commissions for services provided.

Exposure to the state is shown in Note 36, Concentration of assets and liabilities.

The exposure to members of HPB Group mainly consists of investment into share capital. The Bank performs payment transactions on behalf of its subsidiaries and, accordingly, recognizes income. Expenses payable to HPB-nekretnine relate to the services performed by the subsidiary in respect of estimation of collateral.

Key management did not have regular shares at the end of the reporting period (2022: -).

40. RELATED PARTY TRANSACTIONS (continued)

b) Amounts arising from transactions with related parties

Assets and liabilities and off-balance sheet exposure and income and expense as at and for the years ended December 31, 2023, and December 31, 2022 of the Group and Bank, arising from transactions with related parties were as follows:

Group 2023	Exposure* EUR '000	Liabilities EUR '000	Income EUR '000	Expenses EUR '000i
Key Shareholders				
Republic of Croatia	-	-	-	-
Hrvatska Pošta p.l.c.	19,653	27,635	29,638	31,939
Subsidiaries				
HPB Invest	-	-	-	-
HPB-nekretnine	-	-	-	-
Key Management				
Short-Term Benefits (bonuses, salaries and fees)	119	540	2	3,722
Long-Term Benefits (loans and deposits)	1,821	609	42	75
Total	**21,593**	**28,784**	**29,681**	**35,735**

Group 2022	Exposure* EUR '000	Liabilities EUR '000	Income EUR '000	Expenses EUR '000i
Key Shareholders				
Republic of Croatia	-	-	-	-
Hrvatska Pošta p.l.c.	24,747	29,961	29,001	30,734
Subsidiaries				
HPB Invest	-	-	-	-
HPB-nekretnine	-	-	-	-
Key Management				
Short-Term Benefits (bonuses, salaries and fees)	57	567	1	2,637
Long-Term Benefits (loans and deposits)	1,554	5	31	24
Total	**26,358**	**30,533**	**29,033**	**33,395**

*The exposure includes advances in cash and in kind, contingent liabilities and commitments, interest and other receivables and includes EUR 3,810 thousand (2022: EUR 2,571 thousand) of off-balance sheet exposures. Expenses do not include value adjustments, unrealized gains / losses on securities or provisions for losses.

40. RELATED PARTY TRANSACTIONS (continued)

b) Amounts arising from transactions with related parties (continued)

Bank 2023	Exposure* EUR '000	Liabilities EUR '000	Income EUR '000	Expenses EUR '000i
Key Shareholders				
Republic of Croatia	-	-	-	-
Hrvatska Pošta p.l.c.	19,653	27,635	29,638	31,939
Subsidiaries				
HPB Invest	674	98	239	-
HPB-nekretnine	648	445	97	-
Pronam Nekretnine	-	-	-	-
Nova hrvatska banka	-	-	4,432	3
Key Management				
Short-Term Benefits (bonuses, salaries and fees)	99	517	1	3,245
Long-Term Benefits (loans and deposits)	1,612	1,612	38	3
Total	**22,686**	**30,306**	**34,445**	**35,190**

Bank 2022	Exposure* EUR '000	Liabilities EUR '000	Income EUR '000	Expenses EUR '000i
Key Shareholders				
Republic of Croatia	-	-	-	-
Hrvatska Pošta p.l.c.	24,746	29,961	29,001	30,734
Subsidiaries				
HPB Invest	673	572	300	-
HPB-nekretnine	1,858	95	370	-
Pronam Nekretnine	7,495	1	335	-
Nova hrvatska banka	257,900	2,080	1,828	695
Key Management				
Short-Term Benefits (bonuses, salaries and fees)	44	567	1	2,401
Long-Term Benefits (loans and deposits)	1,415	5	27	-
Total	**294,131**	**33,281**	**31,862**	**33,830**

* The exposure includes advances in cash and in kind, contingent liabilities and commitments, interest and other receivables and includes EUR 3,804 thousand (2022: EUR 3,791 thousand) of off-balance sheet exposures. Expenses do not include value adjustments, unrealized gains / losses on securities or provisions for losses.

Loans to key management are in Stage 1 and Stage 2.

c) State owned companies

Major shareholders of the Bank, which together own 77.04% of its shares, are state agencies or state-owned companies, all mainly funded from the State Budget. Accordingly, transactions and balances with other state-owned companies, including credit risk exposures guaranteed by the state, also represent related party relationships. The Bank has a significant exposure to these parties, which is disclosed in Note 36.

41. REPURCHASE AND RESALE AGREEMENTS

The Bank and Group enters into purchases (sales) of investments under agreements to resell (repurchase) essentially identical investments, or in a series of linked sales and buy-back transactions at a certain future date at a fixed price. The amounts paid are recognized in loans and advances to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the report of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortized cost or at fair value, as appropriate. The proceeds from the sale of the investments are presented as liabilities to either banks or customers.

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

The Bank and Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The financial instruments sold are not derecognized and the proceeds are accounted for as interest-bearing borrowings. At the end of the year the Bank and Group had assets sold under repurchase agreements as follows:

Group	Book Value of Liability EUR '000	Fair Value of Collaterals EUR '000
Loans to Customers – Repo Agreements		
2023	103,699	121,750
2022	78,662	94,702

Bank	Book Value of Liability EUR '000	Fair Value of Collaterals EUR '000
Loans to Customers – Repo Agreements		
2023	103,699	121,750
2022	53,459	62,931

Transactions above are recognized as repurchase agreements, in accordance with IFRS 9: Financial Instruments.

The Bank and Group also purchases financial instruments provided that they are re-sold at a contracted future date ("resale agreement"). The seller agrees to buy the same or similar instruments on the agreed future date. Re-sale is contracted as a client financing instrument and is recorded as loans and advances to customers and the purchased financial instrument is not recognized. At the year end the Bank and Group did not have reverse-repo agreement.

42. FUNDS MANAGED FOR AND ON BEHALF OF CORPORATE AND RETAIL CUSTOMERS

The Bank and Group manages funds for and on behalf of corporate and retail customers. These amounts do not represent the Bank's and Group's assets and are excluded from the report of financial position. For the services rendered, the Bank and Group charges a fee which is recognized in the P&L report on an accrued basis.

The Bank’s subsidiary also manages six open-end funds with public offering (short-term bond: HPB Cash Fund, HPB Eurocash Fund, bond: HPB Bond Fund, mixed: HPB Global Fund, HPB Bond Fund Plus and equity fund: HPB Equity Fund).

Investment funds assets that are managed by the Bank is not part of consolidated reports of the Group.

The investment of the parent company in the investment funds of the parent company are stated at fair value through profit and loss.

Investment company

The fund has multiple unrelated investors and owns multiple investments. Ownership shares in the Fund are in the form of shares with limited liability that are classified as liabilities in accordance with IFRS 9 provisions. It is considered that the Fund meets the definition of an investment company according to IFRS 10, given that the following conditions exist:

1. The Fund acquired funds for the purpose of providing professional investment management services to its investors,
2. The business purpose of the Fund, which was transferred directly to investors, is investment for capital appreciation and investment income, and
3. Investments are measured and evaluated on the basis of fair value.

Subsidiaries

The Group, together with other funds managed by the Bank, has subsidiaries as part of its investments. Investments held as part of investment portfolios are reported in the balance sheet at fair value. This treatment is allowed under IFRS 10, "Consolidation", which allows funds not to prepare consolidated financial statements but to recognize and measure the investments held in their portfolios at fair value through the profit and loss account and report them in accordance with IFRS 9, whereby changes in fair value are recognized in the statement of comprehensive income in the period of the change.

Although the Bank has a significant share in one of the funds, the key definition of control is not met. The management fee is in line with the average of similar funds on the market, i.e. it does not differ significantly or at all compared to the competition and mainly changes depending on market trends (there is no correlation of the increase in the fee in relation to the amount of shares) and there is no variable fee that the Group would realized based on the results of the Fund. The investment structure does not depend entirely on the fund manager or the Bank/Group, as it is mainly defined by law, and thus through the fund's prospectus itself. Over the years, the structure of the fund has not changed significantly and is in line with the structure of the main competitors' funds.

The Group manages funds on behalf of and for the account of legal entities, households, and investment funds (including investment funds of the Group), which holds and manages assets or invests funds in various financial instruments at the client's request. For services provided, the Bank receives a fee income. This asset is not the Group's assets and is not recognized in the statement of financial position. The Group is not exposed to credit risks from such placements or guarantees for investments.

As of 31 December 2023, total assets under the custody of the Bank, including HPB Group funds, amounted to EUR 1.85 billion (2022: EUR 924 million).

Furthermore, as of 31 December 2023, the total assets of investment and pension funds, for which the Bank operates as depositories, amounted to EUR 945.6 million (2022: EUR 818 million).

The Bank also manages other credit exposure, as follows:

	2023 EUR '000	2023 EUR '000
Assets		
Corporate	6,842	7,354
Retail	53,579	58,557
Giro Accounts	98,638	98,375
Total Assets	**159,059**	**164,286**
Liabilities		
Croatian Employment Office	9,097	8,533
Counties	1,357	1,317
Government of the Republic of Croatia	147,408	152,789
Croatian bank for reconstruction and development	938	907
Other Liabilities	259	740
Total Liabilities	**159,059**	**164,286**

43. AVERAGE INTEREST RATES

Average interest rates calculated as the weighted average of each category of interest-earning asset and interest-bearing liability, are presented below:

Group	Average interest rates 2023	Average interest rates 2022
Assets		
Cash and Amounts Due from Banks	(0.01%)	(0.07%)
Loans to and Receivables from Banks	5.33%	1.81%
Financial Assets at FV Through P&L	2.21%	1.80%
Financial Assets at FV through OCI	-	1.70%
Financial Assets at Amortized Cost	2.01%	1.07%
Loans and Receivables from Customers	3.82%	3.12%
Liabilities		
Deposits from Banks	(1.13%)	(1.25%)
Customer Deposits	(0.36%)	(0.10%)
Borrowings	(2.28%)	(0.63%)

43. AVERAGE INTEREST RATES (continued)

Bank	Average interest rates 2023	Average interest rates 2022
Assets		
Cash and Amounts Due from Banks	(0.01%)	(0.05%)
Loans to and Receivables from Banks	5.33%	1.89%
Financial Assets at FV Through P&L	2.21%	1.65%
Financial Assets at FV through OCI	-	1.94%
Financial Assets at Amortized Cost	2.01%	1.06%
Loans and Receivables from Customers	3.82%	3.04%
Liabilities		
Deposits from Banks	(1.13%)	(1.89%)
Customer Deposits	(0.36%)	(0.05%)
Borrowings	(2.28%)	(0.77%)

44. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments at fair value through profit or loss or financial assets at fair value through other comprehensive income are measured at fair value. Loans and advances, as well as other financial assets valued at amortized cost, are measured at amortized cost less impairment. Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are disclosed at their fair value that arises from price quotes of these instruments on active markets. Financial liabilities at fair value through profit or loss are disclosed at fair values calculated on the basis of available conditions of these instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/ or disclosure purposes in these consolidated financial reports is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

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

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Set out below is an overview of key methods and assumptions used in estimating the fair values of financial instruments.

Loans

The fair value of loans and advances is calculated based on discounted expected future cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. Expected future cash flows are estimated considering credit risk and any indication of impairment including portfolio-based provisions for performing (i.e. A-risk rated) loans calculated at prescribed rates. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. The Bank has a limited portfolio of loans with fixed rates, where there is a difference between the fair value and the carrying amount.

Investments carried at cost

For equity investments for which a quoted market price is not available, fair value is, where possible, estimated using discounted cash flow techniques. Estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not considered in estimating fair values.

Borrowings

Most of the Bank's long-term debt has no quoted market price and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the reporting date to the Bank for new debt of similar type and remaining maturity.

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table represents the Group's and Bank's estimate of the fair value hierarchy of financial instruments as of December 31, 2023, and December 31, 2022.

Group EUR '000 31.12.2023	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
FINANCIAL ASSETS MEASURED AT COST					
Cash and accounts with Banks	**3,103,821**	**Level 1**		**3,103,821**	**-**
Loans to and Receivables from Banks	**3,649**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows**	**3,654**	**(5)**
Financial assets at amortized cost	**855,857**	**Level 1**	**Mark-to-Market According to the Prices Quoted in an Active Market**	**855,857**	**-**
Loans and Receivables from Customers	**2,905,880**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**2,909,936**	**(4,056)**
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Financial Assets at Fair Value through P&L	**55,406**			**55,406**	**-**
- Ministry of Finance Bonds	36,626	Level 1	*Mark-to-Market According to the Prices Quoted in an Active Market*	36,626	-
- Corporate bonds and commercial bills	3,026	Level 1	- Corporative bonds and commercial bills	3,026	-
- Open-End Investment Fund Investments	10,806	Level 1	Value of an Individual Share on Given Date	10,806	-
- Equity Securities	3,542	Level 1	*Mark-to-Market According to the Prices Quoted in an Active Market*	3,542	-
- fair value of forward contracts	613	Level 3	*Internal model for valuing a currency swap contract by discounting future cash flows*	613	-
- Loans and Receivables from customers	491	Level 3	Present Value of Discounted Future Cash Flows	491	-
- Interest Receivables, not due	302	Not Applicable	Not Applicable	302	-
Financial Assets at Fair Value through Other Comprehensive income	**4,394**			**4,394**	**-**
- Equity Securities – Not Listed	4,140	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B,	4,140	-
- Equity Securities – Listed	254	Level 1	- Equity Securities – Listed	254	-
- Interest Receivables, not due	-	Not Applicable	Not Applicable	-	-
Total Financial Assets	**6,929,006**			**6,933,068**	**(4,061)**
FINANCIAL LIABILITIES MEASURED AT COST					
Deposits from Banks	**51,385**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**51,385**	**-**
Customer Deposits	**5,876,209**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**5,872,041**	**(4,168)**
Borrowings	**487,684**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**484,290**	**(3,394)**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Financial Liabilities at Fair Value Through P&L	**16**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**16**	**-**
Total Financial Liabilities	**6,415,294**			**6,407,732**	**(7,562)**
TOTAL					**(11,623)**

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Group EUR '000 31.12.2022	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
FINANCIAL ASSETS MEASURED AT COST					
Cash and accounts with Banks	**1,472,087**	**Level 1**		**1,472,087**	**-**
Loans to and Receivables from Banks	**26,753**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows**	**28,107**	**(1,354)**
Financial assets at amortized cost	**723,684**	**Level 3**	*Present Value of Future Discounted Cash Flows*	**796,573**	**(72,889)**
Loans and Receivables from Customers	**3,045,256**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**3,061,819**	**(16,562)**
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Financial Assets at Fair Value through P&L	**67,531**			**67,531**	**-**
- Ministry of Finance Bonds	50,600	Level 1	*Mark-to-Market According to the Prices Quoted in an Active Market*	50,600	-
- Corporate bonds and commercial bills	3,152	Level 1	- Corporative bonds and commercial bills	3,152	-
- Open-End Investment Fund Investments	9,198	Level 1	Value of an Individual Share on Given Date	9,198	-
- Equity Securities	3,307	Level 1	*Mark-to-Market According to the Prices Quoted in an Active Market*	3,307	-
- fair value of forward contracts	48			48	-
- Loans and Receivables from customers	659	Level 3	Present Value of Discounted Future Cash Flows	659	-
- Interest Receivables, not due	567	Not Applicable	Not Applicable	567	-
Financial Assets at Fair Value through Other Comprehensive income	**3,808**			**3,807**	**-**
- Equity Securities – Not Listed	3,451	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B,	3,450	-
- Equity Securities – Listed	357	Level 1	- Equity Securities – Listed	357	-
- Interest Receivables, not due	-	Not Applicable	Not Applicable	-	-
Total Financial Assets	**5,339,119**			**5,429,924**	**(90,805)**
FINANCIAL LIABILITIES MEASURED AT COST					
Deposits from Banks	**50,629**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**49,669**	**(960)**
Customer Deposits	**4,591,659**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**4,591,511**	**(149)**
Borrowings	**336,279**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**335,462**	**(817)**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Financial Liabilities at Fair Value Through P&L	**31**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**31**	**-**
Total Financial Liabilities	**4,978,598**			**4,976,673**	**(1,926)**
TOTAL					**(92,731)**

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank EUR '000 31.12.2023	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
FINANCIAL ASSETS MEASURED AT COST					
Cash and accounts with Banks	**3,103,814**	**Level 1**	**Cash and cash equivalents**	**3,103,814**	**-**
Loans to and Receivables from Banks	**3,649**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows**	**3,654**	**(5)**
Financial assets at amortized cost	**855,857**	**Level 1**	***Present Value of Future Discounted Cash Flows***	**855,857**	**-**
Loans and Receivables from Customers	**2,905,880**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**2,909,936**	**(4,056)**
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Financial Assets at Fair Value through P&L	**55,301**		**Financial Assets at Fair Value through P&L**	**55,301**	**-**
- Ministry of Finance Bonds	36,521	Level 1	*Mark-to-Market According to the Prices Quoted in an Active Market*	36,521	-
- Corporate bonds and commercial bills	3,026	Level 1	- Corporative bonds and commercial bills	3,026	-
- Open-End Investment Fund Investments	10,806	Level 1	Value of an Individual Share on Given Date	10,806	-
- Equity Securities	3,542	Level 1	*Mark-to-Market According to the Prices Quoted in an Active Market*	3,542	-
- fair value of forward contracts	613	Level 3	Internal model for valuing a currency swap contract by discounting future cash flows	613	-
- Loans and Receivables from customers	491	Level 3	Present Value of Discounted Future Cash Flows	491	-
- Interest Receivables, not due	302	Not Applicable	Not Applicable	302	-
Financial Assets at Fair Value through Other Comprehensive income	**4,394**		**Financial Assets at Fair Value through Other Comprehensive income**	**4,394**	**-**
- Equity Securities – Not Listed	4,140	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B,	4,140	-
- Equity Securities – Listed	254	Level 1	*mark-to-market according to prices quoted in an active market*	254	-
Total Financial Assets	**6,928,895**			**6,932,956**	**(4,061)**
FINANCIAL LIABILITIES MEASURED AT COST					
Deposits from Banks	**51,385**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**51,385**	**-**
Customer Deposits	**5,876,664**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**5,872,496**	**(4,168)**
Borrowings	**487,684**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**484,290**	**(3,394)**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Financial Liabilities at Fair Value Through P&L	**16**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**16**	**-**
Total Financial Liabilities	**6,415,749**			**6,408,187**	**(7,562)**
TOTAL					**(11,623)**

44. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank EUR '000 31.12.2022	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
FINANCIAL ASSETS MEASURED AT COST					
Cash and accounts with Banks	**1,316,539**	**Level 1**	**Cash and cash equivalents**	**1,316,539**	**-**
Loans to and Receivables from Banks	**264,309**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows**	**264,749**	**(440)**
Financial assets at amortized cost	**653,993**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**722,976**	**(68,984)**
Loans and Receivables from Customers	**2,090,384**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**2,106,804**	**(16,420)**
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Financial Assets at Fair Value through P&L	**55,622**		**Financial Assets at Fair Value through P&L**	**55,622**	**-**
- Ministry of Finance Bonds	38,714	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	38,714	-
- Corporate bonds and commercial bills	3,152	Level 1	*- Corporative bonds and commercial bills*	3,152	-
- Open-End Investment Fund Investments	9,198	Level 1	Value of an Individual Share on Given Date	9,198	-
- Equity Securities	3,307	Level 1	Mark-to-Market According to the Prices Quoted in an Active Market	3,307	-
- fair value of forward contracts	48	Level 3	*Internal model for valuing a currency swap contract by discounting future cash flows*	48	-
- Loans and Receivables from customers	659	Level 3	Present Value of Discounted Future Cash Flows	659	-
- Interest Receivables, not due	544	Not applicable	Not Applicable	544	-
Financial Assets at Fair Value through Other Comprehensive income	**3,789**		**Financial Assets at Fair Value through Other Comprehensive income**	**3,789**	**-**
- Equity Securities – Not Listed	3,451	Level 3	*Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B,*	3,451	-
- Equity Securities – Listed	338	Level 1	*mark-to-market according to prices quoted in an active market*	338	-
- Interest Receivables, not due	-	Not Applicable	Not Applicable	-	-
Total Financial Assets	**4,384,636**			**4,470,479**	**(85,844)**
FINANCIAL LIABILITIES MEASURED AT COST					
Deposits from Banks	**29,787**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**28,827**	**(960)**
Customer Deposits	**3,895,059**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**3,894,911**	**(149)**
Borrowings	**238,351**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**237,533**	**(817)**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Financial Liabilities at Fair Value Through P&L	**31**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**31**	**-**
Total Financial Liabilities	**4,163,228**			**4,161,302**	**(1,926)**
TOTAL					**(87,770)**

Input data not visible for Level 3 measurement

In the case when the fair value of a financial asset is obtained from input parameters that are not visible in the market, then these parameters can be obtained with other alternative parameters. To compile the Statement of financial position, parameters are used that reflect the market situation on the day of the report.

The range of invisible valuation parameters used to measure Level 3 are shown in the following table:

Group and Bank — **31.12.2023**

Financial asset	Instrument type	Fair value EUR '000	Valuation Technique(s)	Key input(s) not visible	Input ranges that are not visible
Financial Assets at Fair Value through P&L	Loans and Receivables from Customers	491	Present Value of Discounted Future Cash Flows	Discount rate	4.70% - 6.25%
Financial Assets at Fair Value through OCI	Equity Securities – Not Listed	3,895	calculation based on the conversion factor and share price on the primary market	Conversion factor	3.625 – 3.645

Group and Bank — **31.12.2022**

Financial asset	Instrument type	Fair value EUR '000	Valuation Technique(s)	Key input(s) not visible	Input ranges that are not visible
Financial Assets at Fair Value through P&L	Loans and Receivables from Customers	659	Present Value of Discounted Future Cash Flows	Discount rate	3.0%-3.1%
Financial Assets at Fair Value through OCI	Equity Securities – Not Listed	3,225	calculation based on the conversion factor and share price on the primary market	Conversion factor	3.645 and 100

45. ENCUMBERED ASSETS OF THE CREDIT INSTITUTION

HPB Group and the Bank under the term encumbered assets implies the pledged assets, given as collateral,subject to some form of pledge or serves to improve the credit position from which it cannot be withdrawn freely. Also, the assets for which the withdrawal must be previously approved are considered to be encumbered assets.

In the structure of assets, the Bank has recorded encumbered assets in the amount of EUR 183,567 thousand (2022: EUR 205,576 thousand). The carrying amount of the Bank's encumbered assets in relation to the Bank's balance sheet total is 2,61 percent of the Bank's assets.

The encumbered assets is represented by a pledge of debt securities of the Republic of Croatia based on pledged loan from CNB and repo loans taken from the HBOR, in the total amount of EUR 121,750 thousand.

The remaining amount of encumbered assets refers to a pledged loan in the amount of EUR 59,522 thousand as a pledge for a foreign currency loan received from the European Investment Bank and guarantee deposits in the amount of EUR 2,295 thousand.

Table form of encumbered assets of the Group and Bank are presented as at December 31, 2023 and December 31, 2022:

	31.12.2023		31.12.2022	
Group **EUR '000**	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Debt Securities	121,750	121,750	94,942	94,942
Calculated mandatory reserve and maintenance accounts	-	-	115,202	115,202
Loans to Customers and Other Assets	61,817	61,817	39,065	39,062
Total	**183,567**	**183,567**	**249,209**	**249,206**

	31.12.2023		31.12.2022	
Bank **EUR '000**	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Debt Securities	121,750	121,750	62,931	62,931
Calculated mandatory reserve and maintenance accounts	-	-	104,198	104,198
Loans to Customers and Other Assets	61,817	61,817	38,447	38,447
Total	**183,567**	**183,567**	**205,576**	**205,576**

46. EVENTS AFTER THE REPORTING DATE

There were no significant events after the balance sheet date until the publication of these financial statements.

Statement of Financial Position as at 31 December 2023

Item	AOP code	Last day of the preceding business year	Current period
1	2	3	4
Assets			
Cash, cash balances at central banks and other demand deposits (from 002 to 004)	**001**	**1,316,506,298**	**3,103,793,849**
Cash in hand	**002**	126,110,085	136,782,367
Cash balances at central banks	**003**	1,179,043,853	2,957,462,257
Other demand deposits	**004**	11,352,360	9,549,225
Financial assets held for trading (from 006 to 009)	**005**	**54,714,278**	**54,809,698**
Derivatives	**006**	48,141	612,632
Equity instruments	**007**	12,505,659	14,348,314
Debt securities	**008**	42,160,478	39,848,752
Loans and advances	**009**	-	-
Non-trading financial assets mandatorily at fair value through profit or loss (from 011 to 013)	**010**	**908,193**	**490,500**
Equity instruments	**011**	-	-
Debt securities	**012**	-	-
Loans and advances	**013**	908,193	490,500
Financial assets at fair value through profit or loss (015 + 016)	**014**	**-**	**-**
Debt securities	**015**	-	-
Loans and advances	**016**	-	-
Financial assets at fair value through other comprehensive income (from 018 to 020)	**017**	**3,788,891**	**4,394,287**
Equity instruments	**018**	3,788,891	4,394,287
Debt securities	**019**	-	-
Loans and advances	**020**	-	-
Financial assets at amortised cost (022 + 023)	**021**	**3,104,467,730**	**3,786,154,629**
Debt securities	**022**	722,976,345	855,856,956
Loans and advances	**023**	2,381,491,385	2,930,297,673
Derivatives - hedge accounting	**024**	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**025**	-	-
Investments in subsidiaries, joint ventures and associates	**026**	13,418,985	1,295,487
Tangible assets	**027**	42,278,803	60,791,774
Intangible assets	**028**	13,269,613	14,601,447
Tax assets	**029**	3,006,236	5,316,953
Other assets	**030**	10,851,336	14,404,364
Fixed assets and disposal groups classified as held for sale	**031**	**-**	**-**
Total assets (001 + 005 + 010 + 014 + 017 + 021 + from 024 to 031)	**032**	**4,563,210,363**	**7,046,052,988**

Statement of Financial Position as at 31 December 2023 (continued)

Item	AOP code	Last day of the preceding business year	Current period
1	2	3	4
Liabilities			
Financial liabilities held for trading (from 034 to 038)	**033**	**70,801**	**16,165**
Derivatives	**034**	70,801	**16,165**
Short positions	**035**	-	-
Deposits	**036**	-	-
Debt securities issued	**037**	-	-
Other financial liabilities	**038**	-	-
Financial liabilities at fair value through profit or loss (from 040 to 042)	**039**	**-**	**-**
Deposits	**040**	-	-
Debt securities issued	**041**	-	-
Other financial liabilities	**042**	-	-
Financial liabilities measured at amortised cost (from 044 to 046)	**043**	**4,163,491,754**	**6,418,350,046**
Deposits	**044**	4,152,678,064	6,397,218,638
Debt securities issued	**045**	-	-
Other financial liabilities	**046**	10,813,690	21,131,408
Derivatives - hedge accounting	**047**	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**048**	**-**	**-**
Provisions	**049**	**19,199,035**	**41,571,561**
Tax liabilities	**050**	**1,469,513**	**7,508,138**
Share capital repayable on demand	**051**	**-**	**-**
Other liabilities	**052**	**31,984,098**	**44,870,183**
Liabilities included in disposal groups classified as held for sale	**053**	**-**	**-**
Total liabilities (033 + 039 + 043 + from 047 to 053)	**054**	**4,216,215,201**	**6,512,316,093**
Equity			
Capital	**055**	161,228,350	161,970,000
Share premium	**056**	-	-
Equity instruments issued other than capital	**057**	-	-
Other equity	**058**	-	-
Accumulated other comprehensive income	**059**	8,020,695	8,645,102
Retained profit	**060**	72,286,496	194,508,595
Revaluation reserves	**061**	-	-
Other reserves	**062**	87,859,802	87,998,143
(–) Treasury shares	**063**	-	-
Profit or loss attributable to owners of the parent	**064**	17,599,819	80,615,055
(-–) Interim dividends	**065**	-	-
Minority interests [non-controlling interests]	**066**	-	-
Total equity (from 055 to 066)	**067**	**346,995,162**	**533,736,895**
Total equity and liabilities (054 + 067)	**068**	**4,563,210,363**	**7,046,052,988**

HPB

Statement of Profit or Loss for 2023

Item	AOP code	Last day of the preceding business year	Current period
1	2	3	4
Interest income	001	74,863,131	172,024,623
(Interest expenses)	002	4,249,157	26,248,803
(Expenses on share capital repayable on demand)	003	-	-
Dividend income	004	338,302	983,998
Fees and commissions income	005	69,332,053	71,144,260
(Fees and commissions expenses)	006	41,861,790	41,786,385
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	007	404,386	48,460
Gains or (-) losses on financial assets and liabilities held for trading, net	008	(1,063,369)	6,458,100
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	009	(6,391)	202,518
Gains or (-) losses on derecognition of financial assets and liabilities at fair value through profit or loss, net	010	-	-
Gains or (-) losses from hedge accounting, net	011	-	-
Exchange rate differences [gain or (-) loss], net	012	(407,326)	(1,044,303)
Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates, net	013	-	-
Gains or (-) losses on derecognition of non-financial assets, net	014	-	18,970
Other operating income	015	2,686,647	7,671,345
(Other operating expenses)	016	1,602,447	4,441,421
Total operating income, net (001 – 002 – 003 + 004 + 005 – 006 + from 007 to 015 – 016)	**017**	**98,434,039**	**185,031,362**
(Administrative expenses)	018	60,676,742	77,899,213
(Cash contributions to resolution boards and deposit guarantee schemes)	019	3,286,792	1,614,947
(Depreciation)	020	9,298,176	11,838,680
Modification gains or (-) losses, net	021	(474,335)	(423,864)
(Provisions or (-) reversal of provisions)	022	6,591,812	(5,364,485)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	023	(2,847,135)	1,926,399
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	024	-	-
(Impairment or (-) reversal of impairment on non-financial assets)	025	(73,930)	2,664,464
Negative goodwill recognised in profit or loss	026	-	-
Share of the profit or (-) losses of investments in subsidiaries, joint ventures and associates accounted for using the equity method	027	-	-
Profit or (-) loss from fixed assets and disposal groups classified as held for sale not qualifying as discontinued operations	028	-	-
Profit or (-) loss before tax from continuing operations (017 – 018 to 020 + 021 - from 022 to 025 + from 026 to 028)	**029**	**21,027,247**	**94,028,280**
(Tax expense or (-) income related to profit or loss from continuing operations)	030	3,427,428	13,413,225
Profit or (-) loss after tax from continuing operations (029 – 030)	**031**	**17,599,819**	**80,615,055**
Profit or (-) loss after tax from discontinued operations (033 – 034)	**032**	**-**	**-**
Profit or (-) loss before tax from discontinued operations	033	-	-
(Tax expense or (-) income related to discontinued operations)	034	-	-
Profit or (–) loss for the year (031 + 032; 036 + 037)	**035**	**17,599,819**	**80,615,055**
Attributable to minority interest [non-controlling interests]	036	-	-
Attributable to owners of the parent	037	17,599,819	80,615,055

Statement of Other Comprehensive income for 2023

Item	AOP code	Last day of the preceding business year	Current period
1	2	3	4
STATEMENT OF OTHER COMPREHENSIVE INCOME			
Income or (-) loss for the current year	**038**	**17,599,819**	**80,615,055**
Other comprehensive income (040+ 052)	**039**	**(23,858,488)**	**624,407**
Items that will not be reclassified to profit or loss (from 041 to 047 + 050 + 051)	**040**	**1,619,343**	**624,407**
Tangible assets	041	1,644,048	-
Intangible assets	042	-	-
Actuarial gains or (-) losses on defined benefit pension plans	043	-	-
Fixed assets and disposal groups classified as held for sale	044	-	-
Share of other recognised income and expense of entities accounted for using the equity method	045	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	046	330,761	707,640
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	047	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	048	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	049	-	-
Fair value changes of financial liabilities measured at fair value through profit or loss attributable to changes in their credit risk	050	-	-
Income tax relating to items that will not be reclassified	051	(355,466)	(83,233)
Items that may be reclassified to profit or loss (from 053 to 060)	**052**	**(25,477,831)**	**-**
Hedge of net investments in foreign operations [effective portion]	053	-	-
Foreign currency translation	054	-	-
Cash flow hedges [effective portion]	055	-	-
Hedging instruments [not designated elements]	056	-	-
Debt instruments at fair value through other comprehensive income	057	(31,070,526)	-
Fixed assets and disposal groups classified as held for sale	058	-	-
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	059	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	060	5,592,695	-
Total comprehensive income for the current year (038 + 039; 062 + 063)	**061**	**(6,258,669)**	**81,239,462**
Attributable to minority interest [non-controlling interest]	062	**-**	**-**
Attributable to owners of the parent	063	**(6,258,669)**	**81,239,462**

Statement of Changes in Equity for 2023

Sources of equity changes	AOP item	Attributable to owners of the parent											Non-controlling interest		Total
		Equity	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	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Opening balance [before restatement]	**001**	**161,228,350**	**-**	**-**	**-**	**8,020,695**	**72,286,496**	**-**	**87,859,803**	**-**	**17,599,819**	**-**	**-**	**-**	**346,995,163**
Effects of error corrections	002	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	**003**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Opening balance [current period] (001 + 002 + 003)	**004**	161,228,350	-	-	-	8,020,695	72,286,496	-	87,859,803	-	17,599,819	-	-	-	**346,995,163**
Ordinary share issue	**005**	741,650	-	-	-	-	-	-	(741,650)	-	-	-	-	-	**-**
Preference share issue	**006**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issue of other equity instruments	**007**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or expiration of other equity instruments issued	**008**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of receivables to equity instruments	**009**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	**010**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends	**011**	-	-	-	-	-	(5,284,273)	-	-	-	-	-	-	-	**(5,284,273)**
Purchase of treasury shares	**012**	-	-	-	-	-	-	-	-	(6,800)	-	-	-	-	**(6,800)**
Sale or cancellation of treasury shares	**013**	-	-	-	-	-	-	-	-	6,800	-	-	-	-	**6,800**
Reclassification of financial instruments from equity to liability	**014**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	**015**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfer between components of equity	**016**	**-**	**-**	**-**	**-**	**-**	**16,719,828**	**-**	**-**	**-**	**(16,719,828)**	**-**	**-**	**-**	**-**
Equity increase or (–) decrease resulting from business combinations	**017**	**-**	**-**	**-**	**-**	**-**	**110,786,543**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**110,786,543**
Share based payments	**018**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other increase or (–) decrease in equity	**019**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**879,991**	**-**	**(879,991)**	**-**	**-**	**-**	**-**
Total comprehensive income for the current year	**020**	**-**	**-**	**-**	**-**	**624,407**	**-**	**-**	**-**	**-**	**80,615,055**	**-**	**-**	**-**	**81,239,462**
Closing balance [current period] (from 004 to 020)	**021**	**161,970,000**	**-**	**-**	**-**	**8,645,102**	**194,508,594**	**-**	**87,998,144**	**-**	**80,615,055**	**-**	**-**	**-**	**533,736,895**

Cash Flow Statement for 2023

	2022	2023
Operating activities and adjustments		
Profit/ (Loss) Before Tax	21,027,247	94,028,280
Adjustments:	-	-
Impairment Losses and Provisions	4,219,012	(349,758)
Depreciation and Amortization	9,298,176	11,838,680
Net Unrealized (Losses)/ Gains on Financial Assets and Liabilities at Fair Value	665,374	(4,433,078)
Gains/ (Losses) on Sale of Tangible Assets	-	-
Other Non-monetary Items	(70,613,974)	(145,715,515)
Changes in Operating Assets and Liabilities		
CNB Deposits	176,049,045	-
Treasury Bills of the Ministry of Finance and the CNB bills	-	-
Loans and Advances to Other Customers	(474,416,241)	-
Securities and Other Financial Instruments at Fair Value through OCI	(32,184,192)	425,370,982
Securities and Other Financial Instruments Held for Trading	26,390,567	-
Securities and Other Financial Instruments Not Actively Trading and Measured at Fair Value through P&L	-	(95,420)
Securities and Other Financial Instruments Mandatory at Fair Value through P&L	-	-
Securities and Other Financial Instruments Measured at Amortized Cost	(118,705,658)	417,693
Other Operating Assets	(3,981,431)	(57,295,990)
Deposits from Financial Institutions	94,257,224	(1,460,850)
Transaction Accounts of Other Customers	350,095,600	60,383,971
Saving Deposits of Other Customers	364,624,112	894,102,619
Term Deposits of Other Customers	(35,379,783)	(385,324,935)
Derivative Financial Liabilities and Other Liabilities Not for Trading	(1,647,721)	469,743,840
Other Liabilities from Operating Activities	40,466,458	(70,801)
Collected Interest from Operating Activities [indirect method]	74,863,131	(10,216,511)
Received Dividend from Operating Activities [indirect method]	338,302	172,024,623
Paid Interest from Operating Activities [indirect method]	(4,249,157)	983,998
(Income Tax Paid)	(767,445)	(26,248,803)
Net Cash Flows from Operating Activities	**420,348,646**	**1,497,683,027**
Investing Activities		
Proceeds from Sale/ (Payments for Purchases) of Tangible and Intangible Assets	(10,005,587)	(9,359,869)
Proceeds from Sale of/ Payments for Investments in Subsidiaries, Associates and Joint Ventures	(12,123,499)	-
Proceeds from/ (Payments to Acquire) Securities and Other Financial Instruments held to maturity	-	-
Dividends Received from Investing Activities	-	-
Other inflows / outflows from Investing Activities	-	147,986,942
Net Cash Flows from Investing Activities	**(22,129,086)**	**138,627,073**
Financing Activities		
Net Increase/ (Decrease) in Borrowings from Financing Activities	53,578,453	151,100,976
Net Increase/ (Decrease) in Issued Debt Securities	-	-
Net increase / (Decrease) of Additional Capital Instruments	-	-
Increase in Share Capital	-	-
(Dividend Paid)	-	-
Other inflows / outflows from Financing Activities	90,464	-
Net Cash Flows from Financing Activities	**53,668,917**	**151,100,976**
Net Increase in Cash and Cash Equivalents	**451,888,477**	**1,787,411,075**
Cash and Cash Equivalents at the Beginning of the Year	**874,237,686**	**1,316,506,298**
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents	**(407,326)**	**(123,525)**
Cash and Cash Equivalents at the End of the Year	**1,325,718,837**	**3,103,793,849**

Statement of Financial Position Reconciliation as of December 31, 2023

ASSETS

Statutory report

Regulatory reporting

EUR '000	Regulatory reporting	Cash and amounts due from banks	Mandatory reserve with CNB	Loans and receivables from banks	Financial assets at fair value through profit and loss	Financial assets at fair value through other comprehensive income	Financial assets ant amortized cost	Loans and receivables from customers	Assets held for sale	Investments in subsidiaries	Property and land	Investment property	Intangible assets	Net deferred tax assets/ liabilities	Tax prepayment	Other assets	Reconciliation between statutory and regulatory reporting
Cash in register	136,782	(136,782)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits with the central banks	2,957,462	(2,957,462)		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other a vista deposits	9,549	(9,549)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets held for trading	54,810	-	-	-	(54,810)	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets non for trading, mandatory measured at fair value through profit and loss	490	-	-	-	(490)	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	4,394	-	-	-	-	(4,394)	-	-	-	-	-	-	-	-	-	-	-
Financial assets measured at amortized cost - debt securities	855,857	-	-	-	-	-	(855,857)	-	-	-	-	-	-	-	-	-	-
Financial assets measured at amortized cost - loans	2,930,298	-	-	(3,654)	-	-	-	(2,926,644)	-	-	-	-	-	-	-	-	-
Investments in subsidiaries, joint ventures and associates	1,295	-	-	-	-	-	-	-	-	(1,295)	-	-	-	-	-	-	-
Tangible assets (less depreciation)	60,792	-	-	-	-	-	-	-	-	-	(55,105)	(5,468)		-	-	(219)	-
Intangible assets	14,601	-	-	-	-	-	-	-	-	-	-	-	(14,601)	-	-	-	-
Tax assets	5,317	-	-	-	-	-	-	-	-	-	-	-	-	(5,317)	-	-	-
Other assets	14,404	(21)	-	-	-	-	-	16,708	-	-		-	-	-	-	(31,091)	-
Non current assets and disposable groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	**7,046,053**	**(3,103,815)**	**-**	**(3,654)**	**(55,300)**	**(4,394)**	**(855,857)**	**(2,909,936)**	**-**	**(1,295)**	**(55,105)**	**(5,468)**	**(14,601)**	**(5,317)**	**-**	**(31,310)**	**-**

1. Item Cash in hand in the amount of EUR 136,782 thousand, Other demand deposits in the amount of EUR 9,549 thousand, Financial assets at fair value through other comprehensive income in the amount of EUR 4,394 thousand, Financial assets at amortized cost\Debt securities in the amount of EUR 855,857 thousand, Financial assets at amortized cost\Loans and advances in the amount of EUR 2,930,289 thousand, Tax assets in the amount of EUR 5,317 thousand, Other assets in the amount of EUR 14,404 thousand, Financial liabilities measured at amortized cost in the amount of EUR 6,418,350 thousand, Provisions in the amount of EUR 41,572 thousand, Tax liabilities in the amount of EUR 7,508 thousand, and Other liabilities in the amount of

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EUR 44,870 thousand within the prescribed reports are shown within the items Cash and bank accounts in the amount of EUR 136,782 thousand, Financial assets at fair value through other comprehensive income in the amount of EUR 3,654 thousand, Financial investments at amortized cost in the amount of EUR 855,857 thousand, Loans and receivables from banks in the amount of EUR 3,654 thousand, Loans and receivables from clients in the amount of EUR 2,909,936 thousand, Real estate, plants and equipment in the amount of EUR 55,105 thousand, Investment in real estate in the amount of EUR 5,468 thousand, Other assets in the amount of EUR 31,310 thousand, Bank deposits in the amount of EUR 51,358 thousand, Customer deposits in the amount of EUR 5,872,496 thousand, Loans in the amount of EUR 484,290 thousand, Provisions for liabilities and expenses EUR 41,752 thousand, and Other liabilities in the amount of EUR 55,049 thousand in the Basic Financial Statements.

2. The amount of EUR 1,295 thousand shown on the item Investments in subsidiaries, joint ventures and associated companies in the Prescribed Financial Statements is shown on the item Investments in Subsidiaries in the Basic Financial Statements.

Differences in other items are purely semantic in nature and there is no mismatch between the Statement of Financial Position for the year 2023, between the regulatory financial reports and statutory financial reports.

LIABILITIES

Statutory reporting

Regulatory reporting: EUR '000	Regulatory reporting	Financial liabilities at fair value through profit and loss	Deposits from banks	Customer deposits	Borrowing	Provision for liabilities and expenses	Current tax liability	Other liabilities	Reconciliation between statutory and regulatory reporting
Financial liabilities held for trading	16	(16)	-	-	-	-	-	-	-
Financial liabilities at amortized cost	6,418,350	-	(51,385)	(5,872,496)	(484,290)	-	-	(10,179)	-
Provisions	41,572	-	-	-	-	(41,572)	-	-	-
Tax liabilities	7,508	-	-	-	-	-	(7,508)	-	-
Other liabilities	44,870	-	-	-	-	-	-	(44,870)	-
TOTAL LIABILITIES	**6,512,316**	**(16)**	**(51,385)**	**(5,872,496)**	**(484,290)**	**(41,572)**	**(7,508)**	**(55,049)**	**-**

EQUITY

Regulatory reporting	EUR '000		Regulatory reporting	Statutory reporting: Share capital	Capital gain	Treasury shares	Reserves for treasury shares	Statutory reserves	Other reserves	Fair value reserve	Revaluation reserve	Retained earning/ (recovered loss)	Recon-ciliation between statutory and regulatory reporting
	Statutory reporting	Share capital	161,970	(161,970)	-	-	-	-	-	-	-	-	-
		Premium on equity	-	-	-	-	-	-	-	-	-	-	-
		Issued equity instruments	-	-	-	-	-	-	-	-	-	-	-
		Other equity instruments	-	-	-	-	-	-	-	-	-	-	-
		Accumulated other comprehensive income	8,645	-	-	-	-	-	-	(3,641)	(5,004)	-	-
		Retained earnings	194,509	-	-	-	-	-	-	-	-	(194,509)	-
		Revaluation reserves	-	-	-	-	-	-	-	-	-	-	-
		Other reserves	87,998	-	-	-	(594)	(6,790)	(80,614)	-	-	-	-
		Treasury equities	-	-	-	-	-	-	-	-	-	-	-
		Profit or loss belonging to mother company owners	80,615	-	-	-	-	-	-	-	-	(80,615)	-
		Dividends during business year	-	-	-	-	-	-	-	-	-	-	-
	Minority interest	Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-	-
		Other	-	-	-	-	-	-	-	-	-	-	-
		TOTAL CAPITAL	**533,737**	**(161,970)**	**-**	**-**	**(594)**	**(6,790)**	**(80,614)**	**(3,641)**	**(5,004)**	**(275,124)**	**-**

Statement of Changes in Equity reconciliation for 2023

Except for differences in terminology between regulatory and statutory financial reports, the reconciliation refers to:

- Other reserves in regulatory financial report are contained in the item's treasury shares reserves, statutory reserves and other reserves the statutory financial reports,
- Accumulated other comprehensive income in the regulatory financial reports is within items fair value reserve and revaluation reserve in the statutory financial reports,
- Profit / loss attributable to the owners of the parent company in regulatory financial reports is within the item retained earnings / (uncovered loss) in the statutory financial reports

Statement of Profit or Loss for 2023

EUR '000	Total regulatory reporting	Interests and similar income	Interests and similar expense	Fees and commission income	Fees and commission expense	Gains less losses arising from financial instruments at fair value through profit and loss	Gains less losses arising from financial instruments available from sale	Gains less losses arising from dealing in foreign currencies	Other operating income	General administrative expenses	Depreciation and amortization	Impairment losses on loans and receivables from customers and other assets	Provisions for liabilities and expenses	Profit before tax	Deferred income tax (expense)/ income	Profit for the year	Total statutory reporting	Reconciliation between statutory and regulatory reporting
Interest income	172,025	172,025	-	-	-	-	-	-	-	-	-	-	-	-	-	-	172,025	-
Interest expense	(26,249)	-	(26,249)	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,249)	-
Expenses from share capital that is returned on demand	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend income	984	-	-	-	-	142	20	-	822	-	-	-	-	-	-	-	984	-
Fee and commission income	71,144	-	-	71,144	-	-	-	-	-	-	-	-	-	-	-	-	71,144	-
Fee and commission expense	(41,786)	-	-	-	(41,786)	-	-	-	-	-	-	-	-	-	-	-	(41,786)	-
Gains of losses from recognition of financial assets and liabilities not measured at fair value through profit and loss account, net	48	-	-	-	-	-	-	-	48	-	-	-	-	-	-	-	48	-
Gains or losses from financial assets and liabilities held for trading, net	6,458	-	-	-	-	6,458	-	-	-	-	-	-	-	-	-	-	6,458	-
Gains or losses on non-trading financial assets measured at fair value through profit or loss, net	203	-	-	-	-	203	-	-	-	-	-	-	-	-	-	-	203	-
Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net	-	-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-
Gains or losses from hedge accounting, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange rate differences (gain or loss), net	(1,044)	-	-	-	-	-	-	-	(1,044)	-	-	-	-	-	-	-	(1,044)	-
Gains or (–) losses on derecognition of investments in subsidiaries, joint ventures and associates, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains or (–) losses on derecognition of non-financial assets, net	19	-	-	-	-	-	-	-	19	-	-	-	-	-	-	-	19	-
Other operating income	7,671	-	-	-	-	-	-	-	7,671	-	-	-	-	-	-	-	7,671	-
Other operating expense	(4,441)	-	-	-	-	-	-	-	-	(4,441)	-	-	-	-	-	-	(4,441)	-
Administrative expense	(77,899)	-	-	-	-	-	-	-	-	(77,899)	-	-	-	-	-	-	(77,899)	-
Cash contributions to resolution committees and deposit insurance system	(1,615)	-	-	-	-	-	-	-	-	(1,615)	-	-	-	-	-	-	(1,615)	-
Depreciation	(11,839)	-	-	-	-	-	-	-	-	-	(11,839)	-	-	-	-	-	(11,839)	-
Gains or losses from changes, net	(424)	-	-	-	-	-	-	-	-	-	-	(424)	-	-	-	-	(424)	-
Provisions or reversal of provisions	5,364	-	-	-	-	-	-	-	-	-	-	-	5,364	-	-	-	5,364	-
Impairment or reversal of an impairment loss on a financial asset not measured at fair value through profit or loss	(1,926)	-	-	-	-	-	-	-	-	-	-	(1,926)	-	-	-	-	(1,926)	-
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	-	-	-		-	-	-	-	-	-
Impairment or reversal of impairment of non-financial assets	(2,664)	-	-	-	-	-	-	-	-	-	-	(2,664)	-	-	-	-	(2,664)	-
Negative goodwill recognized in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Part of profits or (–) losses from investments in subsidiaries, joint ventures and associated companies calculated using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain or (–) loss on non-current assets and disposal groups classified as held for sale that do not qualify as continuing operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PROFIT OR LOSS BEFORE TAX FROM CONTINUING BUSINESS (AOP 084 - 085 - 086 + 087 - 088 to 091+ 092 to 094)	94,028	-	-	-	-	-	-	-	-	-	-	-	-	94,028	-	-	94,028	-
Tax expense or income related to operating profit or loss from continuing business	(13,413)	-	-	-	-	-	-	-	-	-	-	-	-	-	(13,413)	-	(13,413)	-
PROFIT OR LOSS AFTER TAX FROM CONTINUING BUSINESS (AOP 095 - 096)	80,615	-	-	-	-	-	-	-	-	-	-	-	-			80,615	80,615	-
Profit or loss after tax from continuing operations (AOP 099 - 100)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Profit or loss before tax from non-continuing business	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Tax expenses or income related to non-continuing business	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PROFIT OR LOSS FOR THE CURRENT YEAR (AOP 097 + 098; 102 + 103)	**80,615**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**80,615**	**80,615**	**-**

Statement of Profit or Loss reconciliation for 2023

1. The amount of EUR 172,025 thousand disclosed within Interest expense in regulatory financial reports is disclosed within Interest and similar income in statutory financial reports.
2. The amount of EUR 7,671 thousand within Other operating income, EUR 4,441 thousand within Other operating expenses, EUR 77,899 thousand within Administrative expenses, and EUR 5,364 thousand within Provisions or termination of provisions in regulatory financial reports are disclosed within Other operating income in the amount of EUR 7,516 thousand, General and administrative expenses in the amount of EUR 83,956 thousand, as well as Provisions for liabilities and expenses in the amount of EUR 5,364 thousand within the statutory financial reports.

Differences in other items are purely semantic in nature and there is no mismatch between profit and loss accounts for 2023 in the regulatory financial reports and statutory financial reports.

Cash Flow Statement reconciliation for 2023

EUR '000	Regulatory Financial Reports	Statutory reporting	Difference
Operating activities and adjustments			
Profit/ (Loss) Before Tax	94,028	94,028	-
Adjustments:	-	-	-
Impairment Losses and Provisions	(350)	(350)	-
Depreciation and Amortization	11,839	11,839	-
Net Unrealized (Losses)/ Gains on Financial Assets and Liabilities at Fair Value	(4,433)	(4,433)	-
Gains/ (Losses) on Sale of Tangible Assets	-	-	-
Other Non-monetary Items	(145,716)	(145,716)	-
Changes in Operating Assets and Liabilities			
CNB Deposits	-	-	-
Treasury Bills of the Ministry of Finance and the CNB bills	-	-	-
Loans and Advances to Other Customers	425,371	116,860	308,511
Securities and Other Financial Instruments at Fair Value through OCI	-	-	-
Securities and Other Financial Instruments Held for Trading	(95)	323	(418)
Securities and Other Financial Instruments Not Actively Trading and Measured at Fair Value through P&L	-	-	-
Securities and Other Financial Instruments Mandatory at Fair Value through P&L	418	-	418
Securities and Other Financial Instruments Measured at Amortized Cost	(57,296)	(58,454)	1,158
Other Operating Assets	(1,461)	(8,833)	7,372
Deposits from Financial Institutions	60,384	(126,481)	186,865
Transaction Accounts of Other Customers	894,103	1,290,739	(396,636)
Saving Deposits of Other Customers	(385,325)	-	(385,325)
Term Deposits of Other Customers	469,744	-	469,744
Derivative Financial Liabilities and Other Liabilities Not for Trading	(71)	-	(71)
Other Liabilities from Operating Activities	(10,217)	(7,080)	(3,137)
Collected Interest from Operating Activities [indirect method]	172,025	172,025	-
Received Dividend from Operating Activities [indirect method]	984	984	-
Paid Interest from Operating Activities [indirect method]	(26,249)	(26,249)	-
(Income Tax Paid)	-	-	-
Net Cash Flows from Operating Activities	**1,497,683**	**1,309,202**	**188,481**

Cash Flow Statement reconciliation for 2023 (continued)

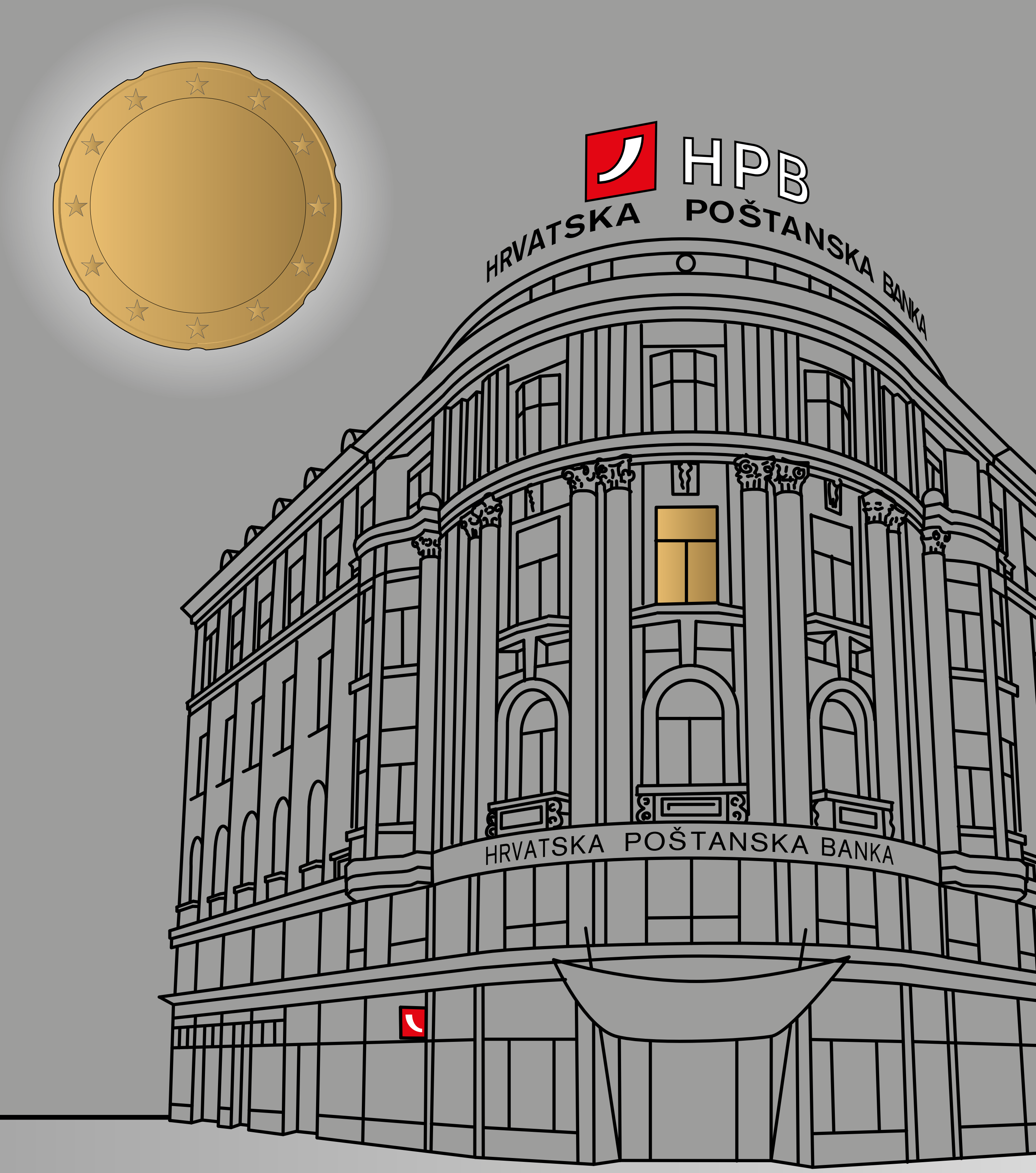
EUR '000	Regulatory Financial Reports	Statutory reporting	Difference
Investing Activities			
Proceeds from Sale/ (Payments for Purchases) of Tangible and Intangible Assets	(9,360)	(9,360)	-
Proceeds from Sale of/ Payments for Investments in Subsidiaries, Associates and Joint Ventures	-	-	-
Proceeds from/ (Payments to Acquire) Securities and Other Financial Instruments held to maturity	-	-	-
Dividends Received from Investing Activities	-	-	-
Other inflows / outflows from Investing Activities	147,987	149,580	(1,593)
Net Cash Flows from Investing Activities	**138,627**	**140,220**	**(1,593)**

EUR '000	Regulatory Financial Reports	Statutory reporting	Difference
Financing Activities			
Net Increase/ (Decrease) in Borrowings from Financing Activities	151,101	160,200	(9,099)
Net Increase/ (Decrease) in Issued Debt Securities	-	-	-
Net increase / (Decrease) of Additional Capital Instruments	-	-	-
Increase in Share Capital	-	-	-
(Dividend Paid)	-	-	-
Other inflows / outflows from Financing Activities	-	(2,809)	2,809
Net Cash Flows from Financing Activities	**151,101**	**157,391**	**(6,290)**
Net Increase in Cash and Cash Equivalents	**1,787,411**	**1,606,813**	**180,598**
Cash and Cash Equivalents at the Beginning of the Year	**1,316,506**	**1,508,674**	**(192,168)**
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents	(124)	(124)	-
Cash and Cash Equivalents at the End of the Year	**3,103,793**	**3,115,363**	**(11,570)**

Cash Flow Statement reconciliation for 2023 (continued)

1. The amount of EUR 308,511 thousand differences on the item Loans and advances to other customers is due to the different treatment of receivables from banks up to 90 days and other receivables in the Regulatory Financial Statements and in the Statutory Financial Statements and due to the NHB merger effect.
2. The amount of EUR (418) thousands of differences on the item Securities and other financial instruments held for trading arises because the corresponding effect in the opposite direction is shown on the item Securities and other financial instruments at fair value through profit and loss account
3. The amount of EUR 1,158 thousand differences on the item Securities and other financial instruments at amortized cost is due to the different treatment of bills of exchange in the Regulatory Financial Statements and in the Statutory Financial Statements
4. The amount of EUR 7,372 thousand differences on the item Other assets from operating activities arises due to the different treatment of other receivables in the Regulatory Financial Statements and in the Statutory Financial Statements
5. The amount of EUR 186,865 thousand of differences on Deposits from financial institutions, EUR (396,636) thousand of differences on the Transaction Accounts of other customers, EUR (385,325) thousand of differences on the position Savings deposits of other customers, EUR 469,744 thousand on the position Term deposits of other customers and EUR (3,137) thousands in the position Other liabilities from operating activities arise due to the different treatment of the relevant liability items in the Regulatory Financial Statements and in the Statutory Financial Statements as well as due to the merger effect of NHB.
6. The amount of EUR (1,593) thousand difference in the position Other sale/payments from investing activities due to different treatment of receivables from banks up to 90 days and items in the course of collection in the Regulatory Financial Statements and in the Statutory Financial Statements.
7. The amount of EUR (9,099) thousands of differences in the position Net increase/(decrease) in borrowings from financing activities and EUR (2,809) thousands in the position Other inflows/(outflows) from financing activities arises due to a different treatment of IFRS 16 liabilities in the Regulatory Financial Statements and in the Statutory Financial Statements.

Branch network and contacts



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phone: 031 284 880

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31 000 Osijek
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31 000 Osijek
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34 000 Požega
phone: 034 410 130

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35 000 Slavonski Brod
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31 550 Valpovo
phone: 031 654 041

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32 100 Vinkovci
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32 000 Vukovar
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OFFICE POREČ
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52 440 Poreč
phone: 052 703 222

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51 000 Rijeka
phone: 051 301 280

OFFICE RIJEKA 2
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51 000 Rijeka
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RCS Dalmacija – sjever

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phone: 023 350 000

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23 000 Zadar
phone: 023 411 906

OFFICE ZADAR 3
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23 000 Zadar
phone: 023 301 414 / 416

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22 000 Šibenik
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OFFICE DALMARE
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22 000 Šibenik
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22 300 Knin
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53 000 Gospić
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OFFICE VIDICI
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phone: 022 209 412

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22 111 Vodice
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phone: 021 401 625

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21 000 Split
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21 220 Trogir
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OFFICE KONAVLE
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20 215 Gruda
phone: 020 450 800/801

OFFICE SOLIN
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21 210 Solin
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21 000 Split
phone: 021 340 626

OFFICE SPLIT 3
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21 000 Split
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21 300 Makarska
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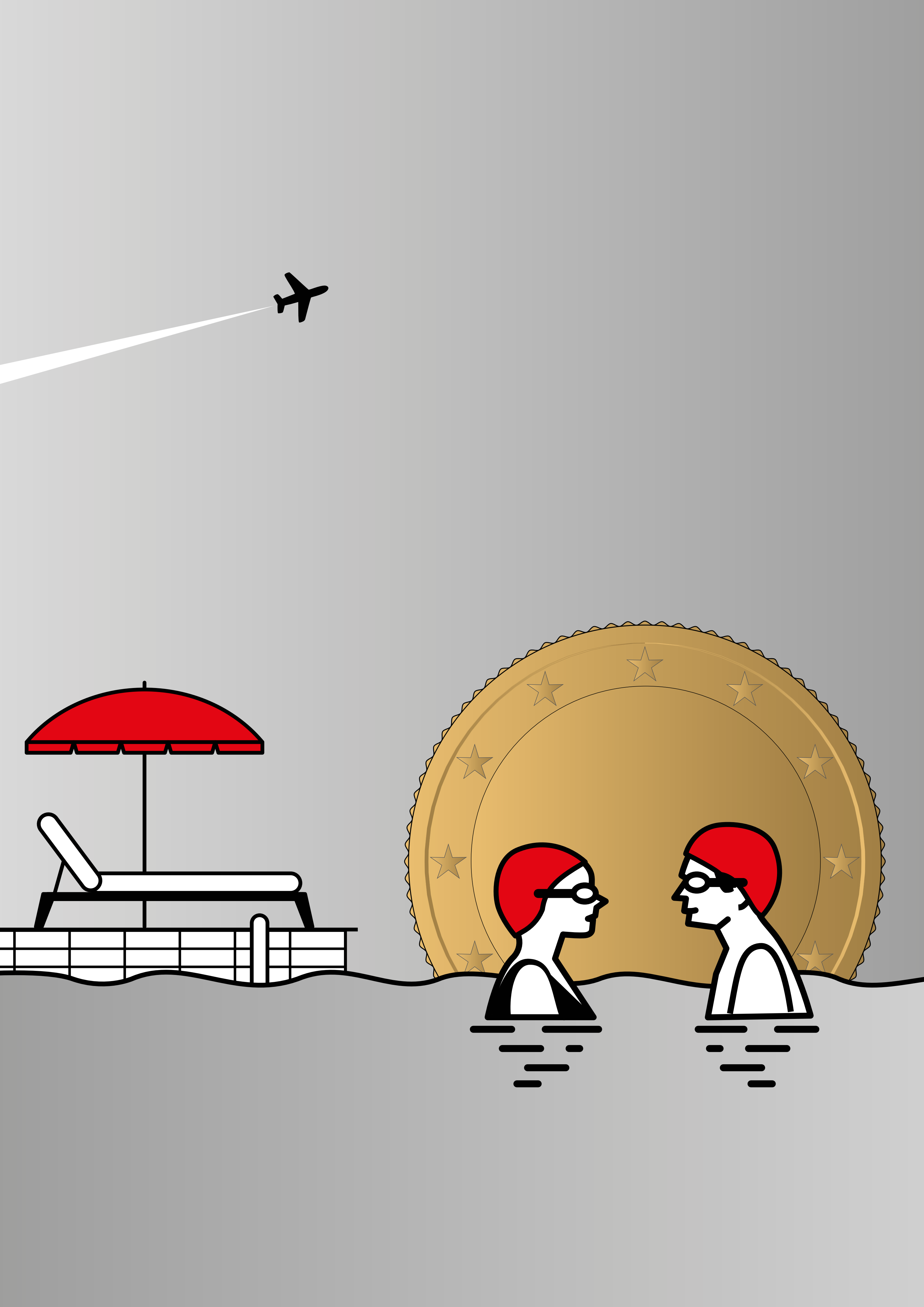

HPB

Hrvatska poštanska banka, p.l.c.
10000 Zagreb, Jurišićeva ulica 4

SUPERVISORY BOARD

Zagreb, March 28, 2024

In accordance with the provision of article 21 of the Articles of Association of HPB p.l.c. (hereinafter: Bank), and in line with Articles 300.c and 300.d of the Companies Act, Supervisory Board of the Bank has on 36. meeting held on March 28, 2024, made the following:

RESOLUTION
on giving consent to Annual financial statements and consolidated annual financial statements of the Bank and the Group for 2023, comprising also the Management Board's annual report on condition of HPB p.l.c. and its subsidiaries for year 2023

I.

Consent is given to Annual financial statements and consolidated annual financial statements of the Bank and the Group for the business year ended December 31, 2023, comprising also the Management Board's annual report on condition of HPB p.l.c. and its subsidiaries for 2023.

Acceptance is given for Auditor's report by BDO Croatia d.o.o., Radnička cesta 180, Zagreb. Auditor has conducted the audit of Annual financial statements the Bank and the Group for the year ended December 31, 2023.

II.

By giving consent to statements outlined in paragraph I of this Resolution, Annual financial statements and consolidated annual financial statements of the Bank and Group for the year ended December 31, 2023, are considered to be confirmed by the Management Board and the Supervisory Board.

III.

This resolution comes into force on the day of its adoption.

President of the Supervisory Board

Marijana Miličević

HRVATSKA POŠTANSKA BANKA, p.l.c.
Zagreb, Jurišićeva ulica 4

Management Board
Zagreb, March 28, 2024

Number: UB-240328-2

Pursuant to the provision of Article 21 of the Articles of Association of HPB p.l.c. (hereinafter: Bank), and in line with Article 300.b and Article 275, paragraph 1, point 2 of the Companies Act, Supervisory Board of the Bank has on 36. meeting held on March 28, 2024, made the following:

RESOLUTION
on allocation of profit earned in 2023

I.

It is determined that Hrvatska poštanska banka, p.l.c. made a net profit of EUR 80,615,055.48 in the business year ended December 31, 2023.

II.

Pursuant to Articles 220 and 222 paragraph 1 of the Companies Act and authority referred to in Article 33 of the Bank's Articles of Association, amount of EUR 1,308,731.67 is allocated to legal reserves, whereby the level of legal reserves reached the maximum amount regulated by Companies Act.

III.

The remaining amount of determined net profit in the amount of EUR 79,306,323.81 after its distribution to legal reserves, is allocated to retained earnings.

IV.

This resolution comes into force on the day of its adoption.

Explanation:

The proposed distribution of net profit is in accordance with Articles 220 and 300 b of the Companies Act and the Articles of Association of Hrvatska poštanska banka, p.l.c.

In accordance with strategic guidelines, the Bank will continue to distribute most of the realized net profit of the period to reserves and retained earnings so that the successful operation of the Bank, profitability, and growth within the limits of possibilities can be continued. Considering that the amount of the binding MREL requirement is prescribed for the Bank from January 1, 2024, the Bank must additionally strengthen its regulatory capital in the following periods.

Based on the above, it is considered appropriate:

- **allocation of EUR 1,308,731.67 to legal reserves** is determined by the Companies Act. After mentioned allocation legal reserves of the Bank will reach maximum amount of 5% of share capital according to Article 220, paragraph 3 of the Companies Act, and will no longer be obliged to allocate the realized profit to legal reserves with a given level of share capital in future periods,
- remaining amount of realized net profit earned in 2023 in the amount of **EUR 79,306,323.81 is allocated to retained earnings**. At the same time, it is emphasized:

    1) that the amount of **EUR 24,194,268.75 will not be included in the calculation of the Common equity tier 1 capital**, taking into consideration Article 60 of the Act on the Execution of the State Budget of the Republic of Croatia for the year 2024, that - if it is determined by a special decision of the Government of the Republic of Croatia and a decision of the General Assembly - is available for the dividend payment without restrictions from Article 312a of the Credit Institutions Act.
    2) that the **remaining amount of retained earnings in the amount of EUR 55,112,05506 will be included in the calculation of the Common equity tier 1 capital**, whereby in the case of a decision to pay a dividend in the above amount or its parts, it is subject to the restrictions from Article 312a of the Credit Institutions Act.

In accordance with the above, it was decided as in the sentence.

Marko Badurina
President of the Management Board

Distribute to:

1. Finance Management Department
2. Management Board
3. Supervisory Board
4. Archive of the Management Office

Hrvatska poštanska banka, p.l.c.
10000 Zagreb, Jurišićeva ulica 4

SUPERVISORY BOARD

Zagreb, March 28, 2024

Pursuant to the provision of Article 21 of the Articles of Association of HPB p.l.c. (hereinafter: Bank), and in line with Article 300.b and Article 275, paragraph 1, point 2 of the Companies Act, Supervisory Board of the Bank has on 36. meeting held on March 28, 2024, made the following:

RESOLUTION
on allocation of Bank's profit earned in 2023

I.

Bank's Supervisory Board gives its consent and accepts Management Board's proposal on allocation of profit earned in 2023, which is a consistent part of this resolution.

II.

By providing its consent outlined in paragraph I of this Resolution, Management Board's proposal on allocation of profit earned in 2023 is considered to be confirmed.

III.

Supervisory Board proposes to General Assembly to vote in favor of allocation of profit earned in 2023 as outlined in Management Board's proposal.

IV.

This resolution comes into force on the day of its adoption and is submitted to General Assembly for adoption.

President of the Supervisory Board

Marijana Miličević