Privredna banka Zagreb d.d.

Annual report

31 December 2022

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

Table of contents

Introduction

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

Croatian and English version

This document comprises the Annual Report which also includes separate and consolidated financial statements of Privredna banka Zagreb d.d. for the year ended 31 December 2022 in the English language. This report is also published in the Croatian language for presentation to shareholder at the Annual General Meeting.

Legal status

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

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

Abbreviations

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

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

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

Exchange rates

The following mid exchange rates set by the CNB ruling on 31 December 2022 have been used to translate balances in foreign currency on that date:

CHF 1	=	7.652 HRK
USD 1	=	7.064 HRK
EUR 1	=	7,535 HRK
BAM 1	=	3.852 HRK

Introduction (continued)

Who we are and what we do?

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

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

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

1,997 thousand TOTAL CUSTOMERS **1,873 thousand** CURRENT ACCOUNTS	**HRK 199.7 billion** TOTAL CUSTOMERS' FUNDS* **HRK 56.7 billion** ASSETS UNDER CUSTODY	**715,230** INTERNET BANKING USERS **232** TOTAL BRANCHES
1,055 ATM MACHINES **151** DAY AND NIGHT VAULTS	**HRK 94.6 billion** TOTAL GROSS LOANS **HRK 23.4 billion** TOTAL GROSS HOUSING LOANS	**2,842 thousand** TOTAL CARDS ISSUED **34,483** EFT POS

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

Introduction (continued)

Five-year summary and financial highlights

(in HRK million)

Group	2022	2021	2020	2019	2018*
Income statement and statement of financial position					
Total gross revenue	5,128	4,958	4,856	5,720	5,727
Net interest income	2,535	2,542	2,616	2,813	2,813
Net operating income	4,476	4,378	4,297	4,920	4,859
Net profit for the year	1,464	1,403	1,025	1,738	1,720
Total assets	157,338	140,982	128,322	117,917	112,086
Loans and advances to customers	83,919	78,679	75,087	70,565	66,897
Due to customers	126,702	109,980	99,461	89,876	85,938
Shareholders' equity attributable to equity holders of the Bank	17,874	17,726	17,455	16,319	16,036
Other data (as per management accounts)					
Return on average equity	7.45%	7.00%	5.40%	9.80%	10.21%
Return on average assets	0.93%	1.00%	0.76%	1.33%	1.47%
Assets per employee	32.4	28.6	25.3	22.6	21.2
Cost income ratio	47.97%	46.00%	45.90%	42.20%	44.20%

**Presented information does not include Veneto banka d.d. (subsidiary acquired and merged in 2018)*

(in HRK million)

Bank	2022	2021	2020	2019	2018
Income statement and statement of financial position					
Total gross revenue	3,754	3,473	3,391	4,501	3,885
Net interest income	1,898	1,965	2,048	2,189	2,207
Net operating income	3,320	3,103	3,043	3,998	3,321
Net profit for the year	1,426	1,115	817	1,880	1,380
Total assets	119,279	104,629	95,924	87,440	82,961
Loans and advances to customers	57,979	53,835	51,170	47,188	45,611
Due to customers	95,528	81,112	73,155	65,890	63,042
Shareholders' equity attributable to equity holders of the Bank	15,933	15,612	15,551	14,661	14,151
Other data (as per management accounts)					
Return on average equity	9.13%	7.00%	5.40%	13.40%	10.10%
Return on average assets	1.20%	1.07%	0.85%	2.11%	1.65%
Assets per employee	35.6	31.0	27.2	24.5	22.8
Cost income ratio	42.07%	41.60%	42.30%	32.90%	41.50%

Report from the President of the Supervisory Board

On behalf of the Supervisory Board of Privredna banka Zagreb, I am honoured to present you the business results of the Bank and the Group for the year 2022.

The past year will be remembered as the year in which inflation reached levels unprecedented for decades, driven at first by the post-pandemic recovery but further accelerated by the Russia-Ukraine conflict. Namely, first weeks and months of the war brought strong disruptions to energy markets by launching oil, gas and electricity prices to record levels as food and commodity prices soared sharply reflecting fears of availability and the spill over of high input prices to production costs.

The pressure of elevated prices on disposable incomes and corporate profits, the gradual increase in interest rates embarked by the FED and European Central Bank and the weakening of consumer and business sentiment resulted in a slowdown in global economic growth towards the end of the year. Croatia's important foreign trade partners also recorded a subdued dynamic of growth.

Despite the challenges described and the unfavourable environment, the Croatian economy continued to record above-average year on year growth rates of gross domestic product in the first three quarters of 2022, albeit with a visible slowdown trend. Economic growth was widespread, where particularly important to point out is the continuation of the strong double-digit growth in goods exports, and the extremely successful tourist season, which also exceeded the record year 2019 in terms of revenues from foreign tourists. However, the high inflation rate, which reached 13.5 per cent in November, eroded real incomes, and slowed down personal consumption and economic growth in the third quarter recorded a negative change, suggesting a further slowdown also in the final quarter of 2022. But at the level of 2022, the domestic economy nevertheless recorded above average growth of estimated 5.9 per cent.

Despite the unfavourable external environment, Croatia will still remember 2022 for fulfilling important political and economic goals. In the middle of the last year, the positive decision of the Council of the EU confirmed 1 January 2023 as the day of Croatia's entry into the euro zone, and in mid-December, the same day was also confirmed as the date of Croatia's accession to the Schengen area.

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

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

During 2022 we placed special attention to shaping ourselves into becoming prominent partner to the local economy. We are constantly focused on enhancement of our services and development of new and innovative products. Hence, we increased our placements in all business segments where we operate. I am specially satisfied that despite the previously mentioned challenging market conditions we managed to preserve the placements in small and medium enterprises as well as in large corporate segment.

Total gross revenue for the PBZ Group amounted to HRK 5,128 million. Consolidated net operating income equalled HRK 4,476 million, whereas net profit recorded HRK 1,464 million (HRK 1,404 million attributable to the equity holders of the Bank). Our cost/income ratio, an efficiency key measure, equals 47.97 percent, while the return on average equity reached 7.45 percent. These are all exceptional figures consistently representing strong performance throughout the years.

Report from the President of the Supervisory Board (continued)

In 2022 the PBZ Group further reinforced its position as one of Croatia's foremost banks in terms of productivity, returns and value creation for its shareholders. We are the second largest group in the country with a strong customer base. Both revenues and profitability in the PBZ Group are well balanced in all market segment thus successfully mitigating any burdens that concentration risk might impose.

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

Consequently, both the Bank and the Group have a proactive role in encouraging corporate social responsibility initiatives and projects, with constant dedication to supporting the local community. We are the leading donor in the country and unrivalled among peers regarding donations to healthcare institutions in combating the COVID-19 pandemic as well as repairing the consequences of the devastating earthquake that hit Croatia. Among our corporate social responsibility projects, I would like to single out our Visa Card with a Heart project, unique in the country, which supports our Doing Good Everyday initiative. During the last 15 years, this initiative has served to continuously support national, long-term projects for the well-being of children and young people, while also responding to our society's current needs. Within this project our Group has so far made 67 donations, including children's hospitals and paediatric wards and social care homes across Croatia.

Looking ahead, the present economic climate suggests that the respective environment in 2023 will nevertheless remain challenging. Therefore, a continued focus by management on overseeing asset quality, maintaining optimal product mix as well as an active monitoring of operating costs will be crucial. We have the ability to overcome the near-term challenges. Furthermore, we are well positioned to earn benefits from the present and future trends in growing integration of the Croatian market into the global financial markets. Given our business model, these trends present a significant growth opportunity for us.

On 1 January 2023 Republic of Croatia became the 20th EU member state in which the euro is the official national currency. Following the inclusion of the Croatian Kuna in the European Exchange Rate Mechanism ERM II in July 2020 as a phase preceding the announcement of the introduction of the Euro currency in 2023, the Bank begun preparatory activities to establish an initiative to replace the Croatian Kuna with the Euro as an official national currency at the level of the Bank and its Croatian subsidiaries. Also, the Bank played a significant part in the national project of adopting the new currency, by participating in the national coordination committees for the euro changeover, confirming its leading role in the country's financial market. This was a very complex and demanding project and we in PBZ and the PBZ Group subsidiaries have implemented it successfully and met all regulatory deadlines with no impacts on clients.

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

Ignacio Jaquotot

President of the Supervisory Board

20 February 2023

Management Board report of the Status of the Bank

Distinguished shareholder,

I am honoured to present you the Annual Report and Financial Statements of Privredna banka Zagreb and the PBZ Group for the year ended on 31 December 2022.

We expected 2022 to be a year of slowdown in economic growth following the strong post-pandemic recovery recorded during 2021, in which central banks will deal with, as it turned out, not very transient inflation and the lingering effects of the pandemic. However, Russia-Ukraine conflict has fundamentally changed the geopolitical and economic environment globally, and especially in Europe.

The past year will thus be remembered as the year in which inflation reached levels unprecedented for decades, driven at first by the post-pandemic recovery but further accelerated by war. Namely, first weeks and months of the war brought strong disruptions to energy markets by launching oil, gas and electricity prices to record levels as food and commodity prices soared sharply reflecting fears of availability and the spill over of high input prices to production costs.

In addition, the closure of important trade and production zones in China during the year due to the spread of a new wave of coronavirus infections or the implementation of a strict "zero Covid" policy further eroded global supply chains, and under such conditions inflation continued to strengthen strongly throughout the world, prompting an acceleration of the normalisation process or tightening of monetary policy and leading to deterioration of global financing conditions. In line with the spill over of the negative effects of the war on the global economy through the reduction of trade and the rise in prices of energy and other commodities, especially in Europe due to the high dependence on Russian gas, each new macroeconomic projection yielded higher estimates of expected inflation while gradually lowering the expected growth rates.

The pressure of elevated prices on disposable incomes and corporate profits, the gradual increase in interest rates embarked by the FED and European Central Bank and the weakening of consumer and business sentiment resulted in a slowdown in global economic growth towards the end of the year. Croatia's important foreign trade partners also recorded a subdued dynamic of growth.

Despite these challenging circumstances, we are nurturing cautious optimism that our and surrounding economies will recover in the forthcoming period, so we have continued tailoring our business strategy accordingly. As we have consistently been proving our operations to be resilient and sound, we remained strong and agile and readily faced all challenges brought by this troubled economic and social environment. Therefore, Privredna banka Zagreb and its subsidiaries, supported by our strategic partner Intesa Sanpaolo, managed to outperform our peers in majority of the most relevant business aspects. We continued executing our adaptable business strategy built around customer relations and well-diversified source of income, thus keeping a steady course, and reflecting the ability to stabilize our earnings power. All our business segments managed to cope extremely well with the surrounding conditions. Supplementary to this, we have been investing significant effort into shaping ourselves into well-capacited, experienced and agile entity able to conduct exceptional management of non-performing loans. Our proactive credit risk management and execution of well-defined and timely-adjusted collection strategies, despite continuous challenges and periodical shocks, resulted with material decrease of non-performing loans portfolio compared to the previous year. We managed to reach the historically all-time-low level (since measured) of non-performing loans ratio (3.8 percent on the PBZ Group level), whereat significant cash collection remains main driver for the reduction of non-performing loans portfolio.

Outlook

Despite the challenges described and the unfavourable environment, the Croatian economy continued to record above-average y-o-y growth rates of gross domestic product in the first three quarters of 2022, albeit with a visible slowdown trend. Economic growth was widespread, where particularly important to point out is the continuation of the strong double-digit growth in goods exports, and the extremely successful tourist season, which also exceeded the record year 2019 in terms of revenues from foreign tourists. However, the high inflation rate, which reached 13.5% in November, eroded real incomes, and slowed down personal consumption and economic growth in the third quarter recorded a negative change, suggesting a further slowdown also in the final quarter of 2022.

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

Outlook (continued)

But at the level of 2022, the domestic economy nevertheless recorded above average growth of about an estimated 5.9%.

Despite the unfavourable external environment, Croatia will still remember 2022 for fulfilling important political and economic goals. In the middle of last year, the positive decision of the Council of the EU confirmed 1 January 2023 as the day of Croatia's entry into the euro zone, and in mid-December, the same day was also confirmed as the date of Croatia's accession to the Schengen area.

The consolidated net profits for 2022 amounted to HRK 1,464 million, proving our continuation in achieving remarkable results, despite operating amid the burdensome and murky economic environment. This worthy result came from carefully planned and precisely executed business strategy that encompasses execution of conservative and systematic approach towards all risks arising from the business transactions, especially credit risk as well as already proven dedication to client orientation and diversification of income sources.

Despite being challenged by the geopolitical and macroeconomic shocks, strongly driven by the Russia-Ukraine crisis, that eventually directly and indirectly does reflect to the banking industry, it seems that we managed to control risks arising from our operations. This achievement is stemming from our commitment to focus on enhanced prevention activities and to manage non-performing part of our portfolio in flexible, prudent and swift manner allowing us to increase collection and improve restructuring process. Through the year, the PBZ Group constantly monitored and adjusted its risk profile in light of environmental changes, in particular of Russia-Ukraine crisis effects, inflationary pressures and interest rate hikes, as well as our expectations for the future period, achieving notable results in managing of key risk indicators such as non-performing loans share, cost of risk and risk weighted assets. This resulted with material decrease of the PBZ Group non-performing loans portfolio compared to the previous year and decrease of non-performing loans ratio to 3.8 percent, which is historically all-time-low level (since measured). Additionally, with proactive management of portfolio risks we managed to substantially control cost of risk, reaching 0.08 per cent of average loan portfolio stock at the end of 2022, while simultaneously increasing the coverage of non-performing portfolio, thus making us well-fitted to meet all future challenges.

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

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

Based on the methodology used for management reporting, the Group's return on average equity in 2022 reached 7.45 per cent, while return on average assets stood at 0.93 per cent. Assets per employee equalled HRK 32.4 million, whereas the cost to income ratio, according to the consolidated financial statements, was maintained at 47.97 per cent.

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

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

Outlook (continued)

Aligned with the above and in more details, our net interest income moderately decreased compared to 2021, being more negatively affected by a decrease in interest income than what it was compensated by a decrease in interest expense. These effects were caused by high liquidity on the market and by overall negative macroeconomic conditions. On the other hand, net fee and commission income recorded an increase, that under the above-mentioned circumstances, can easily be characterized as well-preserved, continuously proving our successful transformation into becoming a more service-oriented enterprise. Similarly, a relatively low level of costs of provisions is direct evidence of the quality of our non-performing loans management and strategy.

Consolidated financial results

The balance sheet of the PBZ Group increased notably by 11.6 per cent, amounting to HRK 157,338 million. The most significant portion of our assets are loans and advances to customers which we managed to increase by 6.7 per cent compared to 2021 to the level of HRK 83,919 million, although faced with the negative shocks in the economic environment and prevailing lack of demand for loans caused by the erratic economic situation that affected our clients, both corporate and retail. We continue practicing a well-diversified loan portfolio policy, having remotely higher volume of placements to retail customers on one side than placements to public and corporate clients on the other. Given our firm commitment to apply a prudent approach in risk identification and measurement, non-performing loans fell below 4 per cent threshold, additionally indicating the quality of our non-performing loans management.

From the liabilities perspective, customer deposits mainly fund our balance sheet, where the retail segment plays the most significant role. In 2022, once again we experienced an upsurge in customer deposits by 15.2 per cent, reaching the level of HRK 126,702 million, caused by high liquidity observable on the market and our reputation of being one of the most stable and client oriented financial group on the market, but also partly due to euro conversion. Capital adequacy ratio remained stable, and it is by far exceeding the prescribed threshold.

Unconsolidated financial results of the Bank

The Bank's net result in 2022 was HRK 1,426 million, representing a significant increase compared to the preceding year. Considering all the circumstances, this favourable result is stemming from careful planning and enduring execution of our business strategy and our ability to swiftly adopt to changes in our environment. Defying the fact that there were significant risks present in the economy paired with the general uncertainty that persists, net interest income slightly declined. In spite of the prevailing presence of the excessive liquidity and overall sluggishness in demand for loans, it is noticeable that interest income remained well-preserved declining by only 2.9 per cent compared to 2021, thus reaching the level of HRK 2,021 million. Equally important, net fee and commission income rose by 9.5 per cent to the level of HRK 815 million. On the other hand, clients continued placing their unfaltering trust in the Bank as a reliable partner and allocating funds to both a-vista and term deposits. Although, in most cases, the Bank offers lower interest rates compared to the competition, our market share in terms of total assets remains stable, and according to the latest data, stands at 21.1 per cent, additionally corroborating the high quality of the business relationships between clients and the Bank. Therefore, we were able to partially compensate for the negative trend experienced in relation to interest income. However, as we are widely recognized as steady and low-risk partner to all our clients, this further affirmed us to continue practicing our dedication to fulfilment of overall client requirements. This strategy was accompanied by efficient and omnipresent cost management enterprise carried within all organizational units enabling us to successfully control the expense side of our business. Hence, we were able to maintain our cost to income ratio at 42.07 per cent (based on the methodology used for management reporting).

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

Unconsolidated financial results of the Bank (continued)

The overall Bank's balance sheet eminently increased by 14 per cent, reaching a level of HRK 119,279 million. Although the market shows fatigue in demand for loans, loans and advances to customers increased by notable 7.7 per cent, amounting to HRK 57,979 million. Current accounts and deposits from customers increased by convincing 17.8 per cent, reaching the level of HRK 95,528 million. Considering the total structure of the balance sheet, the relative portion of customer deposits amounts to 80 per cent. The total loan to deposit ratio of the Bank equals 65 per cent emphasizing the stability and conservative nature of our ventures.

Business segments

During 2022 the Bank additionally consolidated its role as a leader in new technologies, continuously developing new and innovative products and services, both for the citizens and corporate clients. Moreover, considerable effort was put into its transformation to become an entity entirely equipped for digital services. The content and availability of digital services on mobile and online platforms were thoroughly redesigned and significantly upgraded. This endeavour was carefully aligned with the adoption of new distribution model in branch offices promoting the execution of cash and simpler transactions in digital channels, simultaneously introducing changes in the branch office network to carry out more complex tasks quicker and more easily and to improve personal relationships with clients. This significantly simplifies the everyday banking experience for the clients and enables a wider range of products and services.

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

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

Facing uneasy market conditions, Small Enterprises business segment managed to increase size of its portfolio, both loans (for 10 per cent) and deposits (for 22 per cent) compared to year before. More than 85% of loan net growth refers to medium-long term loans (investments).

Despite the demanding macroeconomic situation, harsh competition and post-Covid challenges, PBZ Corporate achieved respectable growth in performing loans of as much as 10.2% when compared to last year.

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

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

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

Extraordinary business events

On 1 January 2023 Republic of Croatia became the 20th EU member state in which the euro is the official national currency. Banks were one of the key stakeholders in the euro introduction process and the biggest challenge for the banking sector was a process of operational preparation for the transition to a new currency.

Following the inclusion of the Croatian Kuna in the European Exchange Rate Mechanism ERM II in July 2020 as a phase preceding the announcement of the introduction of the Euro currency in 2023, the Bank begun preparatory activities to establish an initiative to replace the Croatian Kuna with the Euro as an official national currency at the level of the Bank and its Croatian subsidiaries. Also, PBZ played a significant part in the national project of adopting the new currency, by participating in the national coordination committees for the euro changeover, confirming its leading role in the country's financial market.

This was a very complex and demanding project and we in PBZ and the PBZ Group subsidiaries have implemented it successfully and met all regulatory deadlines with no impacts on clients. The Bank started with the client communication and education in July 2022, immediately after the Economic and Financial Affairs Council (ECOFIN) adopted the final three legal acts that were required to enable Croatia to introduce the Euro on 1 January 2023. Communication took place through all internal and external channels of the Bank.

Almost all organizational parts of the Bank and more than 600 employees, were engaged in the Euro project and adjustments of all applications, ATMs, products and business processes to ensure a successful introduction of the euro for Croatian citizens and the economy.

Special attention was paid to consumer protection and the dual display of prices and Bank signed the Code of ethics immediately upon the dual price display started.

Banks had a central role in sub frontloading process under which banks supplied companies with banknotes and coins before the date of the introduction of the euro. This process was very well organised and Bank sub frontloaded more than 4500 legal entities, sold coin starter kits to more than 139,000 citizens and 3,800 legal entities.

The Management Board welcomed "The Euro Night" in the Bank and monitored the final phase as well as the first withdrawal of the new banknotes at PBZ ATMs. ATMs and POS network were functional on 1 January several minutes after the midnight for credit cards in full functionality and debit cards in "stand-in" mode and debit cards reached full functionality on 2 January from 2:00.

As planned, PBZ branches were open on January 2 in accordance with regular working hours at 8:00 as well as digital channels, and our clients – citizens and business entities – they were allowed to use all card services, ATMs and PBZ digital banking without any hindrances.

I would like to take this opportunity to congratulate all the PBZ Group employees, as well as all other stakeholders who, with their work and commitment, contributed to the successful introduction of the euro as the official currency in the Republic of Croatia. Therefore, we are satisfied that we have completed all the tasks as expected, and provided our clients, who are at the core of our endeavours, an unhindered transition into this major global currency.

Overall, the entry into the euro area will have a positive impact on the Croatian banking system. It will make it more competitive and resilient than it was outside the euro area. In short, we will be better equipped to perform our role of stimulating economic growth in the single economic and financial market by mediating between sectors with a financial surplus and those that need these funds.

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

Corporate social responsibility

Both the Bank and the Group have a proactive role in encouraging corporate social responsibility initiatives and projects, with constant dedication to supporting the local community. We are the leading donor in the country and unrivalled among peers regarding donations to healthcare institutions in combating the COVID-19 pandemic as well as repairing the consequences of the devastating earthquake that hit Croatia. Among our corporate social responsibility projects, I would like to single out our Visa Card with a Heart project, unique in the country, which supports our Doing Good Everyday initiative. During the last 15 years, this initiative has served to continuously support national, long-term projects for the well-being of children and young people, while also responding to our society's current needs. Within this project our Group has so far made 67 donations, including children's hospitals and paediatric wards and social care homes across Croatia.

Our PBZ Financial Literacy Project, initiated as part of the Intesa Sanpaolo project "The Art of Saving", made as recognizable as a credible partner in the field of financial education in the community and by the Croatian schools. In 2022, PBZ volunteers educated through 40 workshops more than 700 children on World Savings Day. Additionally, on the celebration of the European Money Week, PBZ, in cooperation with the Šibenik Quiz Association, prepared an edutainment quiz for high school students. As many as 444 students from 29 schools and 20 cities took part in the quiz, and the numerous positive feedback we received from professors is an indication that we have developed a desirable learning format.

Sustainability impact of the Group is visible from our environmental initiatives as well. We continued to support the Earth Hour initiative and the implementation of the PBZ Forest initiative within which, over the course of two years, our bank successfully reforested 20,000 m2 of hard-to-reach burned areas by drone. We also supported Intesa's #withearth initiative and, on the Earth Day, invited clients to contribute to the environment protection by switching to PBZ digital banking, while we continue to support WWF in our joint effort to preserve biodiversity.

Named initiatives, as an examples of externally visible efforts PBZ invests in sustainability, are just part of wider, holistic ESG framework implemented in our Bank. Commitment toward sustainable goals we demonstrate though these community-oriented initiatives as well as through our business activities, risk appetite framework, product catalogue and internal governance model. From this perspective, one of highlighted initiatives in 2022 was selection of first PBZ Inclusive Manager, a contest organized within the European Diversity Month. Through this highly appreciated initiative, we aimed at disseminating diversity and inclusion principles of PBZ.

Finally, our activities toward employees are continuously being upgraded. During 2022, as part of the annual plan of CSR activities, we established the concept of PBZ Family Practices. Through this holistic concept we have summarized already existing family friendly practices with a series of new initiatives to synergistically strengthen the effect of our activities, such as the introduction of a day off for parents of first-graders, online workshops on encouraging parenting, PBZvjezdice - a competition for employees and their children who achieved outstanding results in the sports, art and science categories, and numerous Advent events for the youngest. The final aim of Family Practice Concept is to create added value to our employees in all life stages and ages to provide organizational, financial and qualitative support and make it easier to achieve a work-private balance. We are glad that the external commissions recognized accomplishments and further endeavours and developments in that segment for which PBZ received 'Employer Friend of the Family' award for 2022 in the category of large companies from Central State Office for Demography and Youth.

In 2022 the Bank also received the Global Finance Award as the best bank in Croatia.

Briefly on the Bank's subsidiaries

In 2022, the PBZ Group members coped well with the overall economic conditions that resulted in positive financial outcomes. Therefore, PBZ Card d.o.o. achieved a net profit of HRK 131.1 million, PBZ Leasing d.o.o. HRK 28.3 million, whereas PBZ Croatia Osiguranje d.d., our jointly owned pension fund management company, earned a profit of HRK 20 million.

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

Briefly on the Bank's subsidiaries (continued)

Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina, our subsidiary established in Bosnia and Herzegovina, earned HRK 106.8 million. Intesa Sanpaolo Bank d.d. Slovenia, our subsidiary in Slovenia, earned HRK 62.9 million attributable to the PBZ Group. Our foreign subsidiaries' strategic objectives are jointly planned on the PBZ Group level - progressing with multi-year plan of investments for the infrastructural and technological modernization, organizational changes in terms of increase of the competitiveness and faster reaction to market changes and continuous assessment of risk profile. Implementation of these objectives are already bearing fruits in current business result but also represent a solid foundation for the future events.

With an aim of further optimization of the current PBZ Group structure, due to simplification in the governance process and IT infrastructure, during 2022 we successfully merged PBZ Stambena Štedionica d.d. into the Bank. This business combination did not have no impact on the overall scope of the services and the quality provided by the PBZ Group.

Conclusion

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

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

Dinko Lucić,
President of the Management Board

20 February 2023

Management Board report of the Status of the Group

Financial Highlights of the Group

Economic challenges that continued in 2022 were increased with a series of changes in the market caused by the war on the European soil and global disruptions in supply, while the Covid pandemic began to slow down. The consequences of these disturbances were felt in the rise in prices, primarily of energy products, which entailed an increase in the prices of other goods and inflation. Economic growth from the previous year, fuelled by measures to mitigate the Covid crisis and a good tourist season, continued until the end of 2022, when inflationary pressures increased. In addition to all these challenges, the Croatian market was additionally preparing for the introduction of the euro and entry into the Schengen area.

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

The stability and reliability of the PBZ Group has been proven in 2022 by its readiness to overcome crisis situations relying on its core values, primarily human potential and adaptability with the use of new technologies, innovation and service availability.

The decrease in the attractiveness of housing savings and the trend of closing housing savings banks on the Croatian market resulted in the merger of the PBZ Stambena Štedionica d.d. with the parent bank in June 2022. Clients with contracted housing savings will continue to be able to exercise their rights unhindered through various PBZ channels.

The growth momentum of economic activity in all three countries where the PBZ Group operates began to slow down at the end of 2022, and it contributed to the Group's consolidated net profit in the amount of HRK 1,464 million, which represents a growth of 4.4 percent compared to the previous year. Digitization of banking services facilitated and accelerated payment processes and resulted in an increase in commission income from card products and payment transactions. A decrease in provisions for litigation also contributed to the increase in net profit.

The Group's net interest income was HRK 2,535 million, which represents a decrease of 0.3 percent compared to the previous year. It is the result of the reduction of interest rates on placements and the high availability of financial resources on the market. In contrast, net income from commissions and fees amounted to HRK 1,601 million at the end of the year and increased by 8.0 percent compared to 2021. Consumer habits have changed during the corona crisis towards an increase in the use of modern electronic and digital services such as online purchases, contactless payments and the like. Also, the tourist season in 2022 was significantly better than the previous one, and the easing and abolition of restrictive measures allowed activities that were previously banned or restricted to adapt to new business conditions. With the support of card companies and the financial sector, economic activity was strengthened, which was reflected in the growth of PBZ Group's fee income from payment transactions of 8.3 percent and the increase of fee income from card operations of 13.2 percent compared to the previous year.

Impairment losses on loans and advances to customers increased percent compared to the previous year, while other provisioning costs decreased by 76.0 percent, mostly provisions for litigation. The risk management system has demonstrated its ability to adapt in extremely unfavourable economic trends and stressful situations. This success arises out from PBZ Group's commitment to managing the portfolio of non-performing placements in a flexible, prudent and fast manner. The share of non-performing placements to clients in total placements to clients decreased from 4.3 percent from the previous year to 3.8 percent in 2022.

PBZ Group's operating expenses increased by 9.0 percent, primarily other operating expenses, which recorded a growth of 15.1 percent due to the increase in the costs of energy products and services. With the increase in the deposit base, the costs of deposit insurance also increased compared to the previous year.

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

Financial Highlights of the Group (continued)

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

Based on the methodology used for management reporting, the return on average capital of the Group in 2022 was 7.5 percent with an increase of 6.4 percent compared to the previous year, while the return on average assets was 0.9 percent or 7.0 percent less than in 2021. Assets per employee amounted to HRK 32.4 million with an increase of 13.1 percent compared to the previous year, and the cost income ratio according to the consolidated financial statements at the level of 48.0 percent is the result of strategic management at all levels of the Group's operations.

The PBZ Group's balance sheet grew by 11.6 percent in 2022 and amounted to HRK 157.3 billion at the end of the year. With Croatia's accession to the euro community at the end of the year, clients put most of their available kuna funds into their bank accounts. Also, the Bank received a larger amount of cash through the payment devices for coins and client payments at cash registers. Preparations for the introduction of the euro as the national currency in Croatia from January 1, 2023, also required pre-supply activities with that currency. Therefore, the assets recorded an increase in cash and funds on account with the Croatian National Bank in the amount of HRK 10.6 billion, or 29.4 percent compared to the previous year.

Loans and advances to clients increased compared to the previous year by 6.7 percent, or by HRK 5.2 billion. Placements to citizens before provisions recorded an increase of 5.1 percent. Business with corporate clients before provisions grew by 9.2 percent, and placements to the public sector and others grew by 4.7 percent. The implementation of the loan portfolio diversification policy continues, whereby in 2022 the highest growth in placements was recorded in the energy sector (61.7 percent growth) and with citizens (5.1 percent growth). Freezing the prices of certain energy products in response to market disruptions in their supply affected the borrowing of the energy sector.

The significant increase in client deposits of 15.2 percent or HRK 16.7 billion in comparison to the previous year is largely the result of activities on the introduction of the euro in Croatia. The largest increase was recorded in household deposits - the amount of HRK 10.9 billion or 14.8 percent. Deposits of legal entities increased by 16 percent or HRK 4.6 billion, and deposits of the public sector and others by 13.4 percent or HRK 1.2 billion compared to the previous year. Although smaller in volume, bank deposits also recorded an increase of 87.4 percent or HRK 1.1 billion compared to the previous year.

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

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

PBZ Card d.o.o.

The financial results of PBZ Card d.o.o. reflect the continuation of stable and growing operations in 2022 as well.

The total net operating income of the Company in 2022 amounted to HRK 316.6 million, which is 2 percent more than the result achieved in 2021. Net income from fees and commissions amounts to HRK 449.7 million, i.e., 6.6 percent more than last year.

In the structure of net operating income, the interest income amounted to HRK 11.7 million, which is 1 percent more than the previous year.

The Company's profit before taxation amounted to HRK 160.1 million, and after taxation to HRK 131.2 million.

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

Financial Highlights of the Group (continued)

PBZ Card d.o.o. (continued)

The total operating expenses for the year 2022 amounted to HRK 413.2 million, while the total assets on December 31, 2022, amounted to HRK 2,887 million. Total equity of the Company amounted to HRK 928.6 million.

Intesa Sanpaolo Bank d.d. Bosnia and Herzegovina

2022 was marked by growth of business activities and revenues mainly in commissions and trading as direct reflection from reviving the economy after pandemic, positive effects from tourist season and economic recovery of the country. Significantly higher provision on loans in 2022 and higher operational expenses led to net profit of HRK 106.8 million or a decrease by 16.6 million HRK (-13.4 percent) compared to the previous year.

Net Interest Margin is lower by 7.3 percent compared to last year mainly due to decrease of interest income from loans due to lower interest rate (-28bps) and an increase of interest expenses on reserves held at Central Bank of Bosnia and Herzegovina due to higher negative interest rate. On the other side, volume of loans remained at similar level as in 2021 mainly due to decrease of loans to large corporate clients (weak economic activity of large corporate, lack of investments, unstable macroeconomic environment in country and worldwide due to war in Ukraine). Decrease of revenues was partly offset by lower interest expense on deposits due to lower interest rate (-14bps). Net commission income recorded strong growth by HRK 10 million or 9.8 percent and mainly in payments, card business, current account fees etc.

Total operating costs increased by 3.8 percent mainly due to higher personal expenses (increase of variable costs) and G&A costs partly due to strong inflator pressure.

Net impairment on loans in 2022 were recorded in amount of HRK 33.6 million which is higher by HRK 11.9 million in compared to previous year and resulted in higher cost of risk by 20bps and higher total coverage of 21bps.

Total assets increased by 3.2 percent and amounted to HRK 9.9 billion, while net loans were in the amount of HRK 6.1 billion (decreased by HRK 20 million or 0.3 percent) and customer deposits in the amount of HRK 7.1 billion (increased by HRK 467 million or 7.1 percent). NPL ratio decreased compared to previous year by 38 bps, reaching a level of 3.6 percent, which is significantly lower than the banking sector average.

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

The Bank's capital adequacy ratio at 19.72 percent and well above prescribed level by the regulatory agency, and the calculation doesn't include Net Profit of 2022 in the amount of HRK 106.8 million. Total equity amounted to HRK 1.3 billion.

Strategic objectives of the Bank for 2023 are planned in coordination with Privredna banka Zagreb - progressing with multi-year plan of investments for the infrastructural and technological modernization of the Bank, organizational changes in terms of increase of the competitiveness of Bank's commercial offers to clients, improving support in decision-taking for faster reaction to market changes and continuous assessment of risk profile of Bank's assets.

Intesa Sanpaolo Bank d.d Slovenia

In 2022, Intesa Sanpaolo Bank's d.d. Slovenia net profit reached HRK 123.2 million, a decrease of 7.5 percent compared to previous year mostly due to provisions on loans caused by Russian military aggression against Ukraine and provisions for legal risks / disputes. In terms of operating margin, the Bank overperformed by substantial 20 percent YoY, confirming the Bank's ability to effectively face the challenging environment represented by uncertainty in the international environment, energy market conditions and prolonged high inflation.

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

Financial Highlights of the Group (continued)

Intesa Sanpaolo Bank d.d. Slovenia (continued)

The strong economy in Slovenia had a significant impact on the performance of the banking system over the first ten months of 2022. This could deteriorate in the future, given the trend of rising systemic risks.

Lending to non-financial corporations has strengthened further, and year-on-year growth in the stock of household loans also remains high. Deposits by the non-banking sector also increased, driven by sharp increases in household deposits during the spring and in deposits by nonfinancial corporations from July on. Income is increasing in the banking system, driven by lending activity and, gradually, by the rise in interest rates on assets, while net non-interest income is also up. Profit and ROE were up slightly on last year, but their developments will also depend heavily on net impairments and provisions, which in turn are dependent on the economic situation. The increased lending activity and revaluations of securities portfolios saw capital ratios decline at the majority of banks, but they remained solid. The banking system's liquidity position remained good, despite a decline in primary liquidity.

Intesa Sanpaolo Bank d.d. Slovenia managed to successfully cope with the challenges brought by Russian military aggression against Ukraine, soaring inflation, disruptions to supply chains and declining confidence. Effective HR management, combining remote and office work, setting of core corporate values, further upgrading of digital banking solutions, were all building blocks for very good commercial and financial results.

In July 2022, ECB decided to rise three key interest rates which meant the exit from negative interest rate territory with additional hikes in the second half of the year. The Bank additionally improved operating results with higher net interest income positively affected by rise of interest rates, higher net fee and commission income and improved cost income ratio. The growth of volumes of loans in all commercial segments and growth of Bank's market share in both individuals and legal entities segment continued in 2022. Net interest income totalled HRK 375.2 million, by 29.9 percent increase on yearly level. A positive trend was noticed also at net fees and commission income, which increased by 6.7 percent in 2022 compared to previous year, reaching HRK 233.0 million. The highest growth was registered on current accounts (deriving from management fee on C/A volumes and introduction of C/A packages), on payments (higher economic activity following the COVID crisis) and on credit cards.

Total operating costs recorded a yearly increase of 6.5 percent mainly following the increase in personnel expenses (higher average number of employees, higher allowances defined by the law) and other administrative expenses (mainly costs related to growing energy prices). Net impairment costs on loans portfolio amounted to HRK 57.7 million. The non-performing to total loans ratio decreased from 1.4 percent in 2021 to 1.1 percent in 2022.

Total net assets increased by 6.6 percent to HRK 27,819 million with net customer loans in the amount of HRK 18,019 million and customer deposits in the amount of HRK 24,169 million. Equity amounted to HRK 2,448 million. The Bank's position in terms of available liquidity remains safe and ready to sustain planned further expansion of lending activity.

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

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

Financial Highlights of the Group (continued)

PBZ Leasing d.o.o.

The Company achieved a net profit in the amount of HRK 28.3 million for the year 2022. In 2022, the Company achieved HRK 487 million in new leasing contracts (HRK 292 million in 2021).

The company's total portfolio at the end of 2022 consists of net fixed assets in operating lease in the amount of HRK 257 million (2021: HRK 278 million) and net finance lease receivables in the amount of HRK 741 million (2021: HRK 642 million). Capital and reserves at the end of the year amount to HRK 177 million.

In 2023, the business activities of PBZ Leasing d.o.o. will be focused on the implementation of the company's new strategy aimed primarily at financing legal entities both through its own channels and through Bank channels.

PBZ Croatia Osiguranje d.d.

PBZ Croatia Osiguranje d.d. continues to achieve positive financial results. In 2022 the Company reached net profit of HRK 20.0 million. At the same time, the cost income ratio stands at 66 percent. Total assets as of 31 December 2022 were HRK 140 million and equity HRK 110.8 million. Net profit was influenced by the statutory change of management fee from 0.284 percent in 2021 to 0.270 percent in 2022. PBZ Croatia Osiguranje d.d. is a well-recognised and highly respectable pension fund management company in Croatia.

Development strategy for 2023 will be oriented at maintaining its status within the general public in the country as well as successfully managing the funds" assets.

Risks to which the credit institution is or might be exposed

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

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

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

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

Risk map of PBZ Group and their significance determined for 2022:

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

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

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

Credit risk - The PBZ Group as a group of credit institutions is primarily oriented towards traditional banking services (loans, deposits) which account for a major part of the total assets of the Bank and the PBZ Group, and therefore credit risk represents the most significant risk. Capital requirement for credit risk represents a major part of total regulatory capital requirement. The Bank continuously places emphasis on credit risk management and focuses special attention on maintaining an adequate credit portfolio and appropriate measurement and monitoring of credit risk. During 2022, due to the great uncertainty surrounding the war in Ukraine, PBZ established extraordinary monitoring and reporting on the potential impact on the PBZ Group portfolio, as well as regular monitoring of the potential transmission of the impact of macroeconomic uncertainties and emerging risks. The Bank regularly monitors and analyses the dynamics of the quality and development of the credit portfolio in relation to all further developments in geopolitical risks, but it also focuses on emerging challenges and potential threats that are mainly identified with inflationary pressures and a potential increase in the risk caused by interest rates (due to the rising trend of interest rates). Therefore, credit risk, as the key and most significant risk in the Bank's portfolio, is designated as a risk of high significance.

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

Concentration risk is highly sensitive to a potentially significant deterioration in portfolio quality in the event of the default of clients with large exposures. Therefore, the concentration risk is marked as a risk of medium significance. However, PBZ has clearly defined guidelines and internal acts aimed at establishing processes and resources used in the risk management process, as well as appropriately established limits for risk taking and clearly defined decision-making levels for the purpose of managing concentration risk. Furthermore, in accordance with the ISP risk appetite framework (RAF), PBZ has established several concentration limits that are continuously monitored.

Currency-induced credit risk was important in the previous period due to the relatively high proportion of loans denominated in foreign currencies. PBZ has established an effective risk management and monitoring framework and continuously monitors (on a monthly basis as part of the standard credit risk report) exposures denominated in foreign currencies. However, given the formal accession to the Economic and Monetary Union (EMU), the VIKR component related to exposures denominated in EUR essentially disappears. Therefore, in order to take into account the upcoming changes as previously explained, the Bank has reduced the significance of this risk and determines the currency-induced credit risk as a risk of low significance.

Interest-induced risk is a risk category introduced in 2018. Although the Bank is recording growth in loans with fixed interest rates, exposures with variable interest rates represent a significant part of the Bank's assets. In accordance with the introduction of a new risk category, the Bank timely adjusted the internal framework and risk management processes, which adequately reflect the newly determined risk. However, due to the significant part of the portfolio that is subject to exposure to interest rate-induced risk, this risk is considered a risk of medium significance.

Liquidity risk - During 2022, the Bank remained highly liquid and fully compliant with all internal and external requirements. Despite very good liquidity, the Bank is continuously improving the entire liquidity risk management process - both in terms of the overall framework for liquidity management as well as the improvement of technical support/tools used for liquidity risk management. Liquidity risk continues to be treated as a risk of high significance, with a further focus on ensuring continuous sufficient levels of liquidity and continuous compliance with regulatory requirements and other applicable regulations. In addition, special emphasis is placed on structural liquidity, while ensuring an adequate balance between long-term assets and related necessary available sources of financing. Taking into account all of the above, liquidity risk is considered a risk of high importance.

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

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

Operational risk - the Bank is continuously exposed to operational risk. Even though the comprehensive and rigorous operational risk management system is in place, due to its nature this risk is considered as highly significant.

Interest rate risk – Items sensitive to changes in interest rates make up the largest part of total assets and liabilities and thus make up the majority of the PBZ Group's balance sheet that is subject to interest rate risk. During the past period/years, the entire market, including PBZ, was faced with changed client preferences regarding risk-taking and thus with related changes in interest rate risk exposure, with a high demand for loans in local currency with fixed interest rates. Fully aware of changes in clients' preferences and their impact on exposure to interest rate risk, the Bank recognized the aforementioned changes in a timely manner and focused special attention on risk management and monitoring activities and the decision-making process. Moreover, the Bank has implemented IRS (interest rate swap) as a risk mitigation measure. In addition, the Bank continued to carefully manage interest rate risk, and the assessment of this risk was maintained as highly significant.

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

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

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

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

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

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

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

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

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

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

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

Recognizing the overall increasing importance of environmental, social and governance risks (ESG) as one of the key topics from several perspectives (regulatory, political, etc.), the Bank recognized the need to direct additional and special attention to improving the inclusion of environmental, social and governance risk management in regular operations/mode of operation, both in the process of strategic management and the appropriate transition expected in the medium/long-term time period, as well as in more operational activities of ESG risk integration into management systems. Therefore, ESG risks are already integrated into the catalogue of risks, where it is defined that credit, reputational, market, liquidity and operational risks can arise from factors related to environmental, social and management risks (so-called ESG risks), i.e. risks arising from potential negative impact, directly or indirectly, on the environment, on people and communities and generally on all stakeholders, or arising from the management of the company. Accordingly, during 2022, the Bank made significant improvements in the integration of ESG risks into the management system and the management of key related risks.

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

Corporate governance structure

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

Supervisory Board

The Supervisory Board of the Bank supervises the conduct of business affairs in the Bank. With this end in view, it goes through and examines the Bank's business books and documentation. The Supervisory Board submits to the General Meeting of the Bank a written report on the supervision exercised with respect to the conduct of business affairs in the Bank. The Supervisory Board consists of seven members. As a rule, regular Supervisory Board meetings are called quarterly. The Supervisory Board may decide on important and urgent matters in meetings held by letter. Eighteen Supervisory Board meetings were held in 2022 with the regular attendance of members. The members of the Supervisory Board of the Bank are elected for a three-year term of office.

Members of the Supervisory Board as of 31 December 2022 are the following:

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

Draginja Đurić, Deputy President of the Supervisory Board – term of office from 2 April 2020

Beata Kissné Földi, Member of the Supervisory Board – term of office from 23 February 2020

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

Luca Leoncini Bartoli, Member of the Supervisory Board – term of office from 26 August 2020

Giulio Moreno, Member of the Supervisory Board – term of office from 30 November 2020

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

Audit Committee

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

The Audit Committee has been appointed in accordance with the law and the parent bank's rules. In 2019 until 31 October, it worked as a body composed of five members. Namely, the composition of the Audit Committee was aligned in June 2018 with the provisions of the new Audit Act so that the Committee was composed of three independent members of the Supervisory Board of the Bank, appointed by the Supervisory Board, and two members appointed by the General Meeting of the Bank. As of 31 November 2019, Audit Committee is composed of three members of the Bank`s Supervisory Board appointed by the Supervisory Board who serve a three-year term of office. As of 31 December 2022 all of the members of the Audit Committee are independent from the Bank. In 2022 six meetings of the Audit Committee were held with regular attendance of members. The Audit Committee discussed at its meetings the issues within the competence of the Supervisory Board. The Audit Committee helped the Supervisory Board in carrying out its duties related to the supervision of the administrative and financial governance process, the audit process (including the recommendation of the General Meeting for the election of the external auditor), as well as compliance with laws, regulations, rules and the code of ethics. The Supervisory Board, with the help of the Audit Committee, monitored the adequacy of the internal control system, which is achieved through independent control functions (internal audit, risk control, compliance, anti-money laundering), in order to establish such a system of internal controls that will enable early detection and monitoring of all risks to which the Bank is exposed in its operations.

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

Corporate governance structure (continued)

Audit Committee (continued)

Composition of the Audit Committee as of 31 December 2022:

Beata Kissné Földi, President from 3 February 2021

Giulio Moreno, Member from 3 February 2021

Maja Martinović, Member from 17 May 2022

Permanent invitees attending Audit Committee meetings as of 31 December 2022:

Carlo Grazio from 26 May 2021

Andrea Nani from 30 April 2020

James Vason from 26 May 2021

Management Board of the Bank

The Management Board conducts business operations of the Bank. Members of the Management Board are appointed for a term of three years, during which they are in charge of certain areas of business in 2022, the number of members of the Management Board was (from 30 June 2022) decreased from six (6) to five (5) members due to the transfer of Mr. Alessio Cioni to a new position outside the PBZ Group.

By appointing of Mr. Hrvoje Dajak as a new Member of the Management Board (whose term of office began on 14 July 2022), the number of members of the Management Board was first, increased from five (5) to six (6), and by appointing of Mr. Dario Massimo Grassani as a new Member and also Deputy President of the Management Board (whose term of office began on 24 November 2022), the number of members of the Management Board increased from six (6) to seven (7). The Management Board regularly meets every two weeks, if necessary, more frequently, to reach management decisions.

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

Members of the Management Board of the Bank as of 31 December 2022:

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

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

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

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

Corporate governance structure (continued)

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

Antonio Bergalio, Member of the Management Board responsible for: (a) the CFO area; (b) coordination of PBZ Group companies in the segment of finance (CFO area) - term of office from 7 September 2020.

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

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

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

Dinko Lucić
President of the Management Board

20 February 2023

Macroeconomic developments in Croatia in 2022

External environment

The year 2022 was once again a turbulent year for the world economy. The world continued to recover from the pandemic shock, and on February 24, a new shock occurred – Russian aggression against Ukraine, which radically changed the environment. The EU adopted the first package of sanctions on Russia as early as February 23 after Russian troops had been deployed to the Donetsk and Luhansk regions, which package included sanctions on members of the Russian Duma and restrictions on Russia's access to capital markets and financial markets and services in the EU. The sanctions were gradually tightened and expanded after the invasion began, and at the end of 2022 they include a freeze on the assets of politicians and entrepreneurs closely linked to the Russian government, limited access of certain Russian banks and companies to the EU capital markets, ban on transactions with the Russian Central Bank, and exclusion of individual Russian banks from SWIFT. The sanctions partially cover both Belarus and Iran. In terms of energy and commodities imports, the EU has banned imports of crude oil with some exceptions (pipeline), coal, iron and steel and limited the price of Russian oil to $60 per barrel. Extensive sanctions on Russia have also been imposed by the US, the UK and many other countries, while simultaneously providing Ukraine with significant financial, humanitarian and military power. The flow of energy products from Russia to the EU thus gradually decreased in 2022, not only due to the introduction of sanctions, but also due to the Russian decision to reduce the flow of gas through gas pipelines. In Europe, fears of gas shortages during winter arose in the summer and autumn months, but at the time of writing it seems that such a scenario has been avoided thanks to the timely filling of underground storage facilities and diversification of energy sources increased by imports of gas (and oil) from other countries, as well as favourable weather conditions.

War and increased uncertainty, with continued supply chain bottlenecks due to rising SARS-CoV-2 infections in China and zero-covid policies in place throughout almost the entire year, brought about an exponential rise in energy prices. The price of oil skyrocketed at the outbreak of war near USD 130/barrel, and then subsided over the course of the year (ending 2022 below USD 90/barrel), while the TTF natural gas price recorded a historic high above EUR 300/MWh in August, gradually declining by the end of the year (to EUR 70/MWh). Due to the increase in energy prices, there was also a strong global increase in food prices (according to the HWWI index an average of around 15 percent year-on-year), with the pressure on cereal prices contributed by the fact that Russia and Ukraine are together or individually among the three globally largest exporters of wheat, barley, corn, rapeseed and rapeseed oil and sunflower oil and seeds. The FAO estimates that the grain harvest in 2022 in Ukraine will be 33% lower than average.

The inflationary pressures that emerged already in 2021 with the opening of economies after the pandemic and the strengthening of demand supported by high amounts of accumulated savings (which was especially pronounced in the US, slightly less in the euro zone) have therefore strengthened due to war events. Inflation rates reached levels never before recorded or unprecedented for decades. The FED therefore began the cycle of raising the federal funds rate target as early as March, in the first step by 25 b. p. By the end of the year, the hike pace accelerated, as had the pace of the FED balance sheet reduction, and the rhetoric of the Bank's leaders sharpened. The FED cumulatively raised the rate by 4 p. p. in 2022 (to 4.50%) and is expected to increase it by a further 50 b. p. in 2023. The European Central Bank embarked on monetary policy tightening much more cautiously than the FED, raising its three key interest rates for the first time only in July, by 50 b. p. The ECB abandoned its forward guidance during the year, focusing on meeting-to-meeting decision-making based on recent data on inflation and economic activity. The cumulative increase in 2022 thus reached 2.5 p. p. According to our current projections in 2023 further rate hikes will follow, and from the beginning of March 2023 the reduction of the asset purchase programme will be initiated, which will reach an average of EUR 15 billion per month in the first four months. The estimated average inflation rate in 2022 is 8.4% year-on-year for the euro zone and 8.0% for the U.S. (Intesa Sanpaolo, Macroeconomic Outlook, December 2022) and inflationary pressures are expected to weaken in 2023.

Macroeconomic developments in Croatia in 2022 (continued)

External environment (continued)

The pressure of elevated prices on disposable incomes and corporate profits, the gradual increase in interest rates and the weakening of consumer and business sentiment resulted in a slowdown in global economic growth towards the end of the year. The year-to-year global GDP growth is estimated to have dropped from 6.2% in 2021 to 3.2% in 2022, with euro zone growth forecast at 3.3% (2021: 5.3%) and the US 2.0% (2021: 5.9%). Croatia's important foreign trade partners also recorded a subdued dynamic of growth, so it is estimated that Germany recorded GDP growth of 1.7%, Italy of 3.8% and Slovenia of 5.4% year-on-year.

The dollar strengthened noticeably against the euro in 2022 due to a stronger pace of the FED's interest rate hike compared to the ECB and a rise in global risk perceptions, touching the level of $0.96 for euro in October. By the end of the year, a correction followed and 2022 ended at the level of $1.07 for euro.

Let us not forget to say that in addition to economic troubles, the war in Ukraine brought human casualties and caused a humanitarian catastrophe. According to UNHCR data, 7.9 million people have fled Ukraine to the EU, 5.9 million people have been displaced within the country, and at the end of 2022, humanitarian aid is needed by millions of people in the country and in exile.

A year marked by inflation revival and Russian aggression against Ukraine

We expected 2022 to be a year of slowdown in economic growth following the strong post-pandemic recovery recorded during 2021, in which central banks will deal with, as it turned out, not very transient inflation and the lingering effects of the pandemic. However, Russia's aggression against Ukraine has fundamentally changed the geopolitical and economic environment globally, and especially in Europe.

The past year will thus be remembered as the year in which inflation reached levels unprecedented for decades, driven at first by the post-pandemic recovery but further accelerated by war. Namely, first weeks and months of the war brought strong disruptions to energy markets by launching oil, gas and electricity prices to record levels as food and commodity prices soared sharply reflecting fears of availability and the spill over of high input prices to production costs.

In addition, the closure of important trade and production zones in China during the year due to the spread of a new wave of coronavirus infections or the implementation of a strict "zero Covid" policy further eroded global supply chains, and under such conditions inflation continued to strengthen strongly throughout the world, prompting an acceleration of the normalisation process or tightening of monetary policy and leading to deterioration of global financing conditions. In line with the spill over of the negative effects of the war on the global economy through the reduction of trade and the aforementioned rise in prices of energy and other commodities, especially in Europe due to the high dependence on Russian gas, each new macroeconomic projection yielded higher estimates of expected inflation while gradually lowering the expected growth rates.

Despite the challenges described and the unfavourable environment, the Croatian economy continued to record above-average y-o-y growth rates of gross domestic product in the first three quarters of 2022, albeit with a visible slowdown trend. Economic growth was widespread, where particularly important to point out is the continuation of the strong double-digit growth in goods exports, and the extremely successful tourist season, which also exceeded the record year 2019 in terms of revenues from foreign tourists. However, the high inflation rate, which reached 13.5% in November, eroded real incomes and slowed down personal consumption and economic growth in the third quarter recorded a negative q-o-q change, suggesting a further slowdown also in the final quarter of 2022. But at the level of 2022, the domestic economy nevertheless recorded above average growth of about an estimated 5.9%.

Despite the unfavourable external environment, Croatia will still remember 2022 for fulfilling important political and economic goals. In the middle of last year, the positive decision of the Council of the EU confirmed 1 January 2023 as the day of Croatia's entry into the euro zone, and in mid-December, the same day was also confirmed as the date of Croatia's accession to the Schengen area.

Macroeconomic developments in Croatia in 2022 (continued)

2022 in review: continuation of above-average economic growth in an environment of high inflation

Domestic economy in the past year was hence certainly hallmarked by the high inflation rate, which, compared to the average 2.6% recorded during 2021, exploded at an average unrecorded for decades, 10.6% in 2022. In the first eleven months, the monthly inflation rate averaged 1.2%, with a monthly increase stronger than the average recorded in six of the eleven months, while slower growth in the remaining five months mainly reflected periods of declining prices of oil in global markets. The latest available data for November also brought a new record inflation rate of 13.5%, with the price growth rate of the most important consumption categories in terms of share such as food products amounting to 19.2%, housing and energy for households 16.5% and transport 13.3%, while the other, less significant categories in terms of share, recorded price increases ranging from 2.3% (education) to 17% (restaurants and hotels), indicating widespread inflation. It is important to note that the Government of the Republic of Croatia, with two packages of measures to mitigate the increase in energy and food prices, partially alleviated the spill over of the inflationary shock to households, given that the increase in electricity and natural gas prices that occurred at the beginning of April was significantly below market trends. However, the spill over of inflationary pressures from energy products to a wide range of products and services inevitably led to the erosion of real incomes, and the noticeable nominal increase in net wages was not sufficient to preserve the purchasing power of the population.

Specifically, although the average net wage recorded a nominal increase of 7.2% in the first ten months, in real terms it recorded a decline of 2.8% year-on-year. The adverse impact of inflation from mid-summer began to reflect more clearly on retail trade developments, namely, the real annual increase in retail trade turnover from August to November amounted to only 0.3%, i.e., significantly less compared to the growth rate of 3.4% achieved in the first seven months.

The sharp price growth at producers is partly responsible also for the high double-digit growth rates of trade in goods, with higher impact in respect of the structure recorded on the import side (energy products). Namely, in the first eleven months, the nominal growth rate of exports of goods was 32%, while the growth rate of imports of goods was 48.4% with the value of imports of oil and refined products almost doubled. Expectedly, given the environment, data for October and November (preliminary) indicated an upcoming slowdown in foreign demand, and the annual rate of goods exports halved compared to that recorded in the first three quarters. In tourism, too, the increase in prices played its part, namely, although the year as a whole will achieve only slightly fewer tourist arrivals and overnight stays than the record 2019, financial income will exceed EUR 10.5 billion in revenues generated in that last pre-pandemic year.

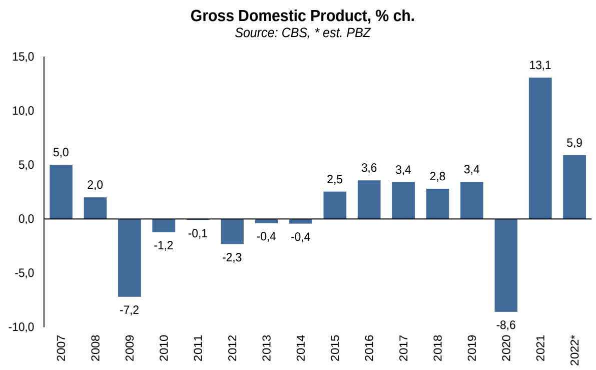
Therefore, despite the unfavourable external environment, the Croatian economy has shown a higher level of resilience than it was the case in some previous crisis situations. Specifically, gross domestic product in the first three quarters of 2022 posted an increase of 7.1% year-on-year, with equally strong growth of 7.8% and 8.7% respectively recorded in the first and second quarter, while the third quarter observed a slowdown in growth rate to 5.2% with a quarterly contraction of 0.4%, the first since the pandemic spring of 2020. At the same time, the labour market reflected positive economic trends through increased demand for labour force accompanied by insufficient supply, which ultimately also led to a decrease in the unemployment rate to below 7%, which is a historical low of unemployment in Croatia, and increased employment of foreigners, especially in the hospitality and construction industries. The tight labour market also accelerated the rise in the average net wage in the country, with an additional boost from the increased minimum wage and wages in public and state services.

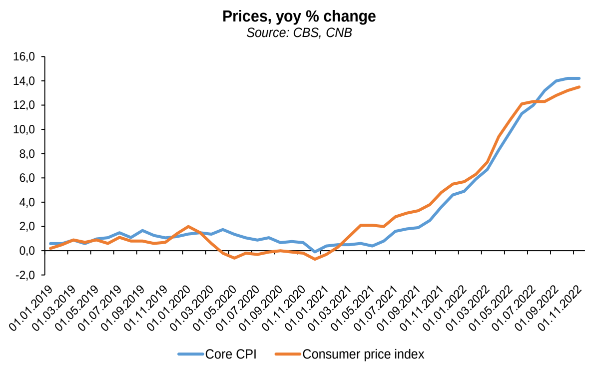
Macroeconomic developments in Croatia in 2022 (continued)

2022 in review: continuation of above-average economic growth in an environment of high inflation (continued)

According to the internationally comparable methodology of the European System of National and Regional Accounts (ESA 2010), a consolidated general government surplus of EUR 268 million was achieved in the first half of 2022, a noticeable improvement of EUR 1.5 billion year-on-year. This budgetary achievement reflects an increase in total revenues, primarily an increase in tax revenues, which are influenced by favourable cyclical developments and changes in price levels, but also a slight decrease in total expenditures. According to the original plan of the Government of the Republic of Croatia, the deficit of consolidated general government was estimated at EUR 1.6 billion in 2022, and increased in the amending budget in May (to EUR 1.8 billion), reflecting the uncertain and potentially unfavourable expected impact of economic developments in the second half of the year on the state of public finances. In April 2022, the Government of the Republic of Croatia adopted a comprehensive package of measures to mitigate the effects of inflation on business operations of companies and standard of citizens in the amount of about 1.0% of GDP, with the estimated direct impact of the April package of measures in 2022 on the general government balance of about 0.9% of GDP. In September, the autumn package of measures to protect households and the economy from price growth was also adopted, which increased the total value of measures adopted during 2022 to about 6% of GDP, with the estimated direct impact on the general government balance being 2%. In October, the second amending budget reduced the planned consolidated general government deficit to EUR 0.9 billion (1.5% of GDP), reflecting better-than-expected collection of tax revenues, primarily VAT and corporate tax revenues.

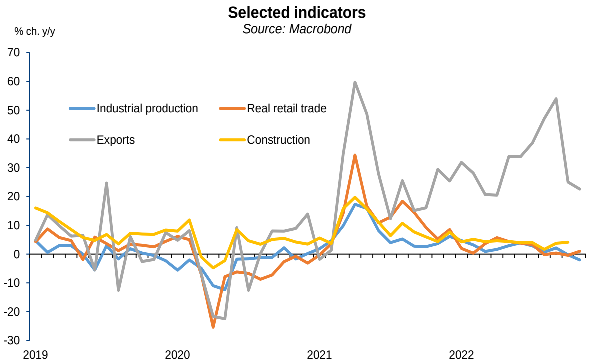
Consolidated general government debt stood at EUR 45.7 billion at the end of September 2022, a decrease of EUR 170 million compared to September 2021. The rise in nominal GDP resulted in a decrease in the public debt-to-GDP ratio to 70.4% from 81.5% recorded a year earlier.

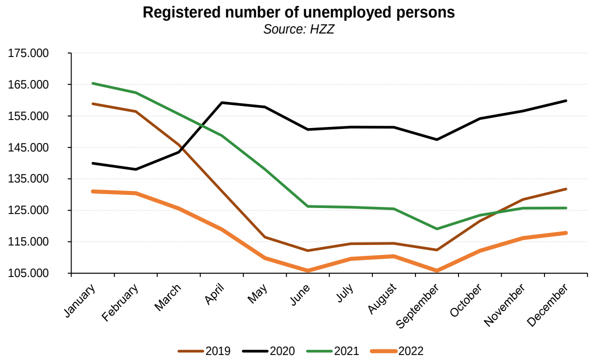


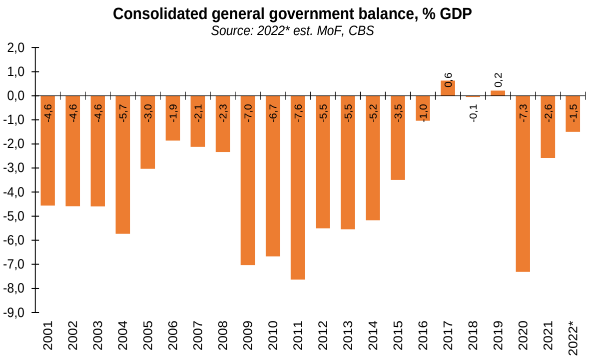


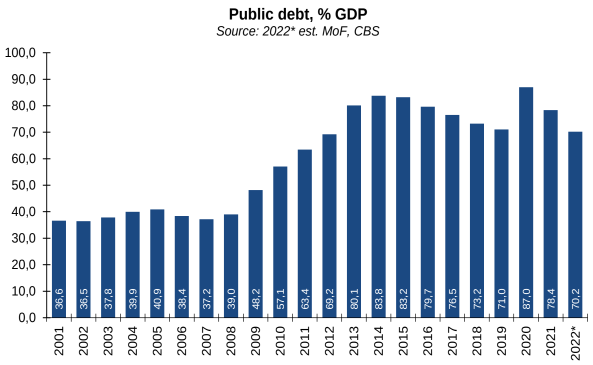
Macroeconomic developments in Croatia in 2022 (continued)

2022 in review: continuation of above-average economic growth in an environment of high inflation (continued)









Yields increased

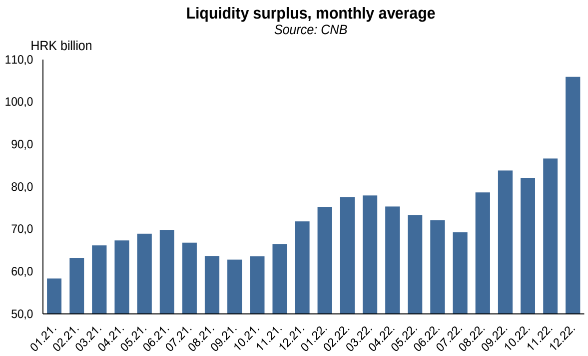
Quoted informative kuna interest rates in 2022 stagnated or dropped in an environment of ample liquidity supported by central bank decisions adopted within preparations for the introduction of the euro on a cumulative reduction in reserve requirements rate by 8 p. p. to 1% and a decrease (to 8.5% from August), i.e., abolition (from December) of the obligation to maintain a minimum percentage of foreign currency liabilities by foreign currency claims. Banks' excess liquidity reached HRK 80 billion on average, up by 21% than the year before, ending December at a record level of HRK 119 billion. The CNB's structural repo operations were therefore not held, and there was interest in regular weekly repo auctions only in a shorter period in March due to market disturbances caused by the start of the war in Ukraine and the imposition of sanctions on Russia. Interest rates on treasury bills were increased due to the rise in rates in the euro zone, so the rate on one-year HRK T-bills increased by 20 b. p. to 0.20%, and on one-year HRK T-bills with a currency clause by 10 b. p. to -0.05%.

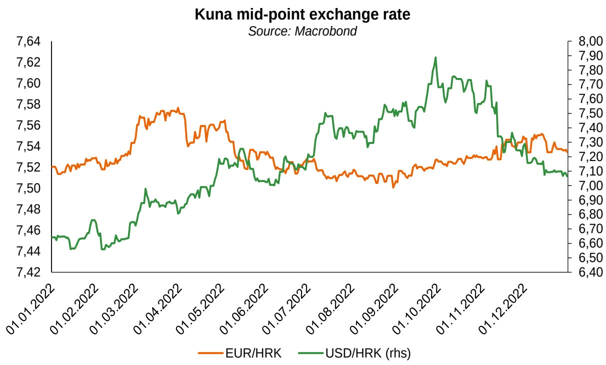
The spread between domestic HRK and German government bonds in 2022 recorded significant fluctuations, from a minimum of 70 b. p. to as much as 220 b. p., despite the growth of Croatia's rating in July to a historic high and solid GDP growth owing to a significantly elevated level of risk due to the war in Ukraine, a jump in energy prices and uncertainty about the EU energy supply. The average spread reached 160 b. p. (+70 b. p. year-on-year) with an average yield of 2.8% (+2.2 p. p.), while the spread for the 10-year euro bond was 200 b. p. on average (+70 b. p.) with an average yield of 3.5% (+2.6 p. p.). The MF issued a bond in the domestic capital market in February of EUR 1 billion with maturity in 2030 with a yield to maturity of 1.39%, while in July two tranches of bonds were issued with a total value of EUR 1.2 billion falling due in 2026 and 2032 with a yield of 2.17% and 3.47%, respectively. At the end of April, a EUR 1.25 billion issue falling due in 2032 was realised in the international capital market with a yield of 2.975%.

Macroeconomic developments in Croatia in 2022 (continued)

Yields increased (continued)

The HRK exchange rate was calm in 2022, with depreciation pressures following the outbreak of war in Ukraine, when the CNB also intervened by selling EUR 0.3 billion to banks. In July, the Council of the European Union formally approved Croatia's accession to the euro zone on 1 January 2023, and the fixed conversion rate was set at the level of HRK 7.53450 per €, which was the central parity with which Croatia was included in ERM II in July 2020. The average exchange rate of the kuna against the euro reached HRK 7.53 for euro (+0.1% year-on-year), while the average exchange rate against the dollar rose to HRK 7.16 for dollar (+12.6% year-on-year).





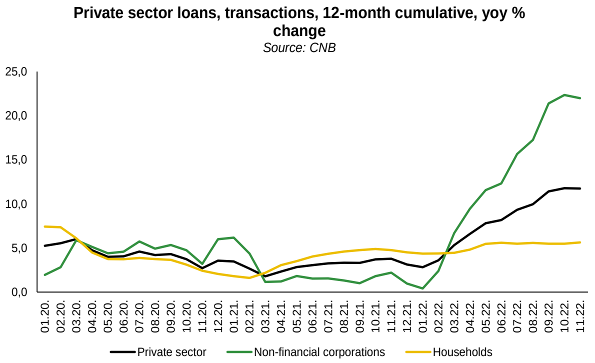
Exponential rise in corporate credit demand

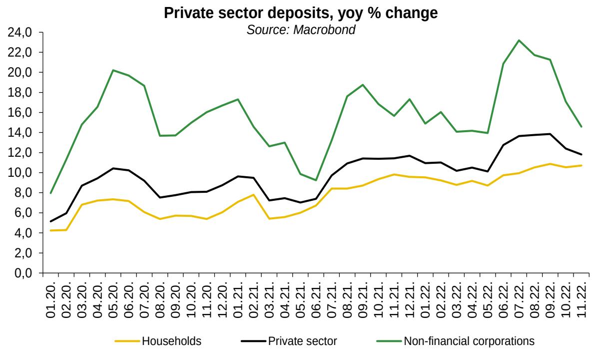
Bank assets growth continues to accelerate in 2022, supported by a strong increase in deposits and vibrant lending activity, primarily with regard to the corporate sector whose financing needs, especially for working capital, increased due to strong growth in energy and raw material prices. Loans to households recorded a stable pace of growth, with housing loans maintaining an upward trend owing to subsidies, and a slight recovery in cash lending was also observed, limited by weakening consumer sentiment and declining real incomes. Total loans were up by 8.3% year-on-year in November 2022, with loans to the central government and social security funds reduced by 3.7%, while loans to the private sector advanced by 11.4% (households 5.2%, non-financial corporation's 21.9%). In terms of transactions, the cumulative growth of loans to the private sector was only slightly higher, as placement sales were not particularly pronounced, reaching 11.8% year-on-year in November. The growth of deposits accelerated in 2022 due to increased corporate lending, high inflation and cash inflows to banks in the last months of the year due to the approaching date of entry into the euro zone. At the end of November, total deposits were up by 11.8% year-on-year (households 10.7%, non-financial corporation's 14.6%), with funds in transaction accounts increasing by 16.9%, HRK savings narrowing by 9.6% and FX savings soaring by 11.3%.

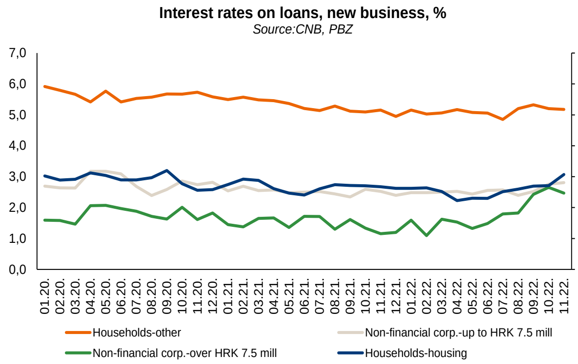
Bank lending rates recorded a varied movement under the influence of several factors - an increase in reference euro interest rates followed by domestic record liquidity, decrease in the volume of HRK placements in the second part of the year and strengthening of competition. Compared to the 2021 average, in the first eleven months of 2022, the average interest rate on loans to the private sector decreased by 40 b. p. on HRK (to 4.7%) but increased by 40 b. p. on loans with FX clause (to 3.0%) due to the growth of Euribor. On average, the interest rate on housing loans dropped by 10 b. p. (to 2.6%), while the interest rate on loans to small and medium-sized enterprises stagnated (at 2.5%), i.e., increased by 30 b. p. (to 1.8%) on loans to large enterprises. Interest rates on time deposits remained largely at low levels, with only the average interest rate on EUR time savings of companies achieving a noticeable growth and reaching 0.7% in November. The interest rate on EUR household time savings at the same time stagnated at 0.1%.

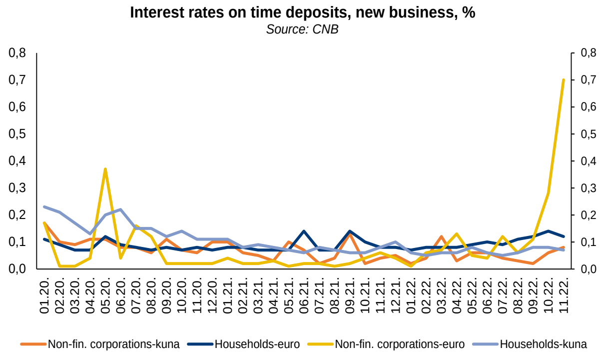
Macroeconomic developments in Croatia in 2022 (continued)

Exponential rise in corporate credit demand (continued)







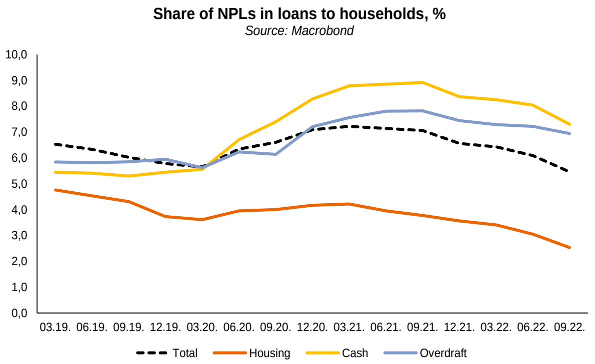


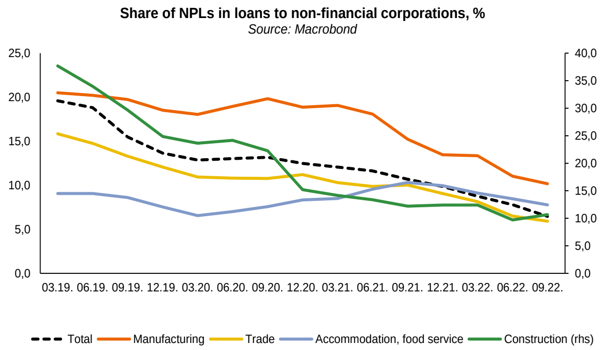
The continued post-pandemic recovery, high inflation facilitating the position of borrowers, the sale of placements, in particular households and the active approach of banks resulted in a further decline in the share of non-performing loans (NPL) in the portfolios of credit institutions in the first three quarters of 2022. At the total portfolio level, the share was 3.3% at the end of September, down by 1.0 p. p. than at the end of December 2021. Loans to households achieved a decrease of 1.1 p. p. (to 5.5%), with housing loans recording a decrease of 1.0 p. p. to 2.5% and cash loans of 1.1 p. p. to 7.3%. At the same time, loans to non-financial companies posted a decrease in the share of as much as 3.4 p. p. to 6.5% owing to a lower share in the manufacturing industry (-3.3 p. p. to 10.2%), trade (-3.2 p. p. to 5.9%), accommodation and food service (-2.2 p. p. to 7.8%) and construction (-1.7 p. p. to 10.7%). After two years of share growth, the activity of accommodation and food service has recovered owing to the extremely successful tourist season.

Macroeconomic developments in Croatia in 2022 (continued)

Exponential rise in corporate credit demand (continued)

Increased lending, a jump in income from fees due to tourism and dividend income after lifting the ban on disbursements, and in particular the reduction of non-performing loans that led to the release of provisions resulted in growth in profits and returns of credit institutions on assets and equity. Returns thus in the first nine months of 2022 reached 1.3% and 10.3%, respectively, up by 0.1 and 1.5 p. p. than in all of 2021. The total capital ratio of credit institutions dropped somewhat to 24.0% at the end of September, down by 1.8 p. p. compared to the end of 2021, which is still significantly higher than the prescribed minimum. Capitalisation will remain strong as from 31 March 2023 the countercyclical capital buffer rate increases from 0.0% to 0.5% (and from 31 December 2023 to 1.0%), which is introduced due to the risks arising from increased growth in lending and strong growth in housing prices against the backdrop of increased economic activity.





Business description of the Bank

Privredna banka Zagreb was founded in 1966 and has consistently been a leading financial institution in the Croatian market, with an established business base and a highly recognized national brand name.

During all periods of its history, PBZ supported the largest investment programs in tourism, agriculture, industrialisation, shipbuilding, electrification and road construction. PBZ has become a synonym for economic vitality, continuity and the Croatian identity.

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

Organisational Structure and Business Activities

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

Upon successful privatisation in December 1999, PBZ became a member of Gruppo Intesa Sanpaolo – the largest Italian banking group and one of the most significant financial institutions in Europe. With this partnership, PBZ has retained its business strategy aimed at modern forms of banking and new products, confirming its image of a dynamic and modern European bank, which meets the demands of the market and its clients. The benefits of strategic partnership are clearly visible in the continuously improving financial results of the Bank, as well as of the PBZ Group.

Along with the adoption of the business and corporate governance standards set by its parent bank, Privredna banka Zagreb has maintained the strategic development orientation of a modern, client oriented, technically innovative universal financial institution. PBZ is focused on the continued advancement of its economic performance well into the future, as well as strengthening its position as a product leader in offering the most progressive banking products, through the optimal mix of traditional and modern distribution channels. This ensures that PBZ will continue to be able to set standards of the highest quality for product innovations and services offered to both its domestic and international clients.

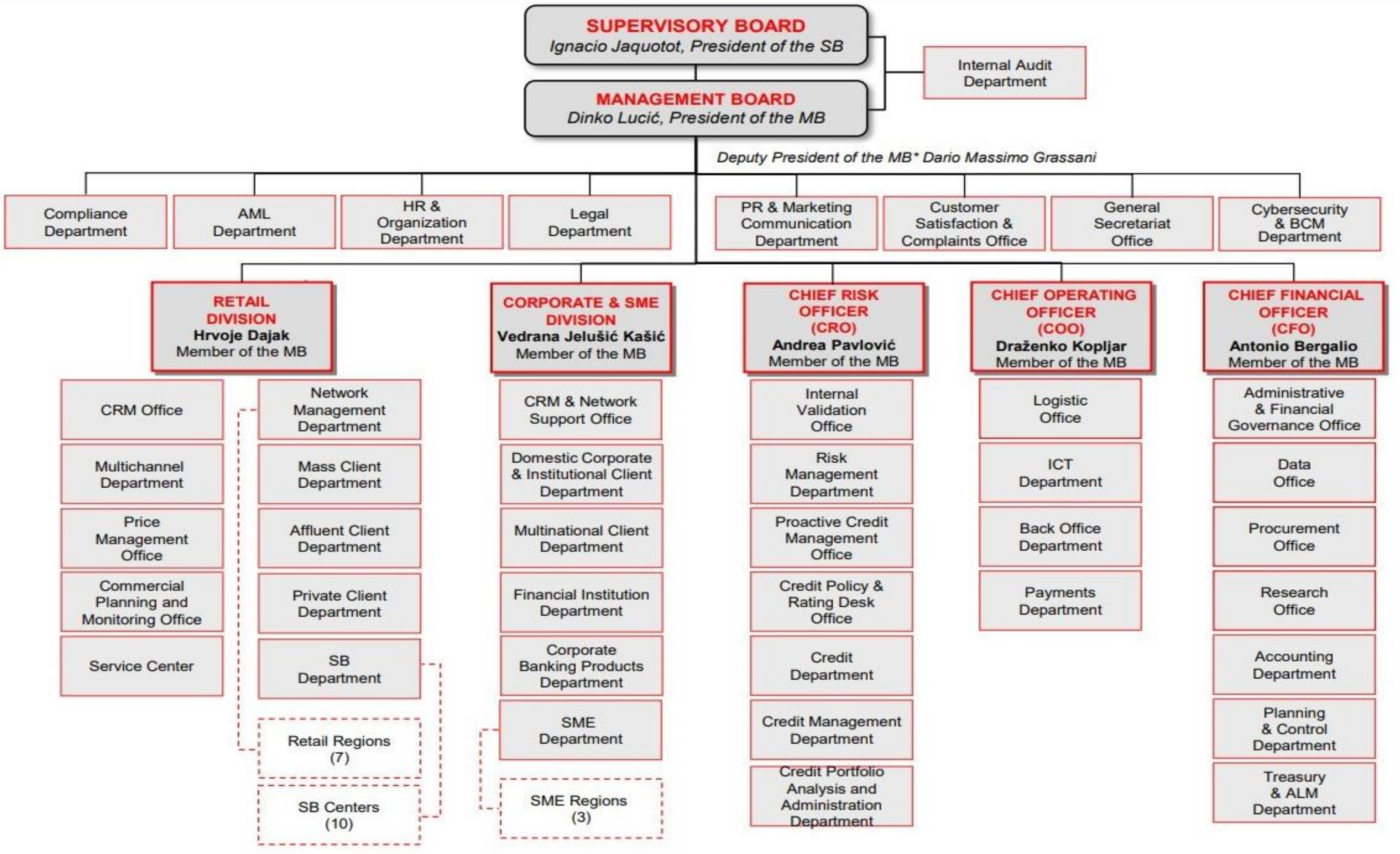
This commitment to quality and advanced banking practices is clearly seen by the fact that Privredna banka Zagreb received a numerous international and domestic awards and acknowledgments so far, which they joined in 2022:

- Global Finance Awards 2022 – as the best bank in Croatia
- Women's Choice Award - as the best bank in Croatia
- Best employer certificate for 2022 - in accordance with the ISF white© Employee standard
- Employer partner certificate for 2022 - awarded by the company Selectio Solutions d.o.o.
- Best Employer Brand Awards 2022 in category Banking sector
- Gold index in the Scholarships category - awarded by the student association e-STUDENT

Privredna banka Zagreb currently employs 3,348 employees and provides a full range of specialized services in the areas of retail, corporate and investment banking services. The business activities of the Bank are organized into two principal client-oriented business groups and logistics area.

Business description of the Bank (continued)

Organisational chart



Business description of the Bank (continued)

Retail Division

In the retail banking segment, Privredna banka Zagreb has a comparative advantage over its competitors due to the fact that it has the most extensive branch network in Croatia, consisting of 146 organizational units (branch offices and outlets) in 7 retail regions and 10 SB centers, which cover the entire territory of Croatia.

After the successful implementation of the New Service Model (AGDM project) in the period from 2018 to 2021, the improvement of the service model of the Bank's business network continues. As an excellent upgrade to the AGDM project in PBZ d.d., the implementation of the AGD2M program is underway, as well as the preparation and training of the business network for the implementation of new activities that are necessary for the successful process of transforming the work of branches and employees in relation to clients. The transformation program of the Bank's business network has already started in 2022, and it has been enriched by the improvement and further development of the service model as well as the transformation of the digital business of PBZ d.d.

Some of the projects related to the transformation of the work of the retail business network are Boosting Mass Project 2022 (Mass To!) and Magnifica GO!, and they aim to improve sales with a customized and segmented sales approach through upgrading and developing business relationships with clients.

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

As part of the above-mentioned activities, from 2022 the Bank started to apply three basic branch business models based on the availability of services to clients: Full service model (branches work in two shifts and all the bank's services are available to clients throughout the branch's working hours), Cashlight service model (branches work in two shifts, whereby the cash part of business is available to clients only part of the branch's working hours), Cashless service model (the cash part of business will be performed exclusively through 0-24 zones within the branch).

Furthermore, we would like to point out that Privredna banka Zagreb successfully introduced euro. As planned, PBZ branches opened on January 2nd 2023 in accordance with regular working hours.

Our clients, citizens and business entities have been able to use all card services, ATMs and PBZ digital banking without interruption since January 2nd 2023. It is a great success and the result of a well-managed and demanding project. Project members have been working intensively for the past two years on this project.

Banks were one of the key actors in the process of introducing the euro and entry into the euro area will have a positive effect on our economy and the Croatian banking system.

Therefore, we are satisfied that we completed all the tasks in accordance with expectations and enabled our clients, who are the center of our efforts, a smooth transition to this major world currency by enabling the functionality of our channels already a few minutes after midnight.

In 2022, PBZ also prepared a special offer of housing loans with a government subsidy intended for the purchase of an apartment / house or building a house, according to the Law on Subsidizing Home Loans and its Amendments (OG 65/17, 61/18 and 66/19) and confirmed its leading position in the market share in this segment of retail lending.

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

Business description of the Bank (continued)

Retail Division (continued)

In addition to restructuring and repositioning the traditional distribution channels of the business network, PBZ continues to develop and improve its direct banking distribution channels. It has extended the network of ATMs that accept Maestro, Mastercard, Visa, Diners and UnionPay cards (a total of 700 ATMs). PBZ continuously invests in the further development of the ATM network generating new revenues in cooperation with partners; Croatian and foreign companies with an independent ATM network. Together with the partners, the PBZ ATM network has more than 1,600 ATMs. The number of EFT POS"s (point of sale) was 27,590 and the Bank has in network of branches also 22 self-service devices for the payment of coins.

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

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

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

Based on identified needs, PBZ recognized its role in the environmental protection and social responsibility, and therefore amended and extended its product offer with loans such as Energo loans, tuition fee loans and student cost of living loans, loans for retired persons, socially stimulated housing loans, state subsidy housing loans, etc. In addition to responding to market requirements, PBZ is monitoring regulatory and legislative requirements and timely adjusting its products and services to them.

Business description of the Bank (continued)

Retail Division (continued)

The Bank, as a member of the Intesa Sanpaolo Group, also announced the partnership between Intesa Sanpaolo and Generali insurance in order to strengthen operations in the field of bancassurance on the Croatian market and provide a complete insurance offer for individuals, families and companies.

Overall, in the period from 2000, PBZ established itself as the market leader in retail loans with cca 18.50 percent share in the loan market on the Group level. In the area of savings, the PBZ Group has significantly increased its deposits, with cca 23.30 percent of all retail deposits in Croatia.

In the 2022, PBZ"s Retail Division comprise the following departments: *CRM Office, Multichannel Department, Price Management Office, Commercial Planning and Monitoring Office, Service Centre, Network Management Department, Mass Client Department, Affluent Client Department*, *Private Client Department and SB Department*.

CRM Office

Customer Relationship Management Office (CRM Office) operations are analysis and development of client relationships models as well as supervision and implementation of measurements of the key indicators related to distribution network, production and services effectiveness with focus on retail and SB customers for the Bank and other PBZ Group members. Key tasks include CRM activities in area of creating, monitoring and analysis of campaigns, conducting various analyses (of clients, products, services transactions and distribution network) and direct marketing, the development of support for better customer relationship management and key success indicators calculation in managing relations between the client and the Bank as well as and business, segment, regional, branch, and employee business reports. Participating and preparing data in external surveys (Benchmark) and defining business improvement initiatives based on such surveys.

Multichannel Department

Direct distribution channels function (Multichannel Department) is responsible for defining and implementing new digital functionalities as well as maintenance of on-line banking channels (Internet and mobile distribution channels), enabling the offer of banks products and services through their value propositions on mobile app and responsive, enhancing customer experience with new customer journeys in the digital banking environment in coordination with different stakeholders, developing and improving ATMs and other self-service terminals in order to improve the overall economic performance, as well as sustaining support and contact tools through online channel with regards to contact center (subfunction Customer Contacts – Retail). Development activities include participation in research and development of innovative multichannel solutions with aim of improving customer experience and achieving the strategic goals of the Bank, supporting the integration of CRM solutions in direct distribution channels, development of own and partner network of ATMs. It is also in charge of defining business and commercial strategies in cooperation with marketing to augment the awareness of digital banking, ensure realization of sales goals through customer education, training and improving sales of on-line services in PBZ branch network.

Price Management Office

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

Commercial Planning and Monitoring Office

Commercial Planning and Monitoring office are responsible for monitor budget achievement of Retail and Small business Division by Segments, and to timely provide detailed reports related to the fulfilment of the assigned targets to Network Management Department and to Segment Departments.

Business description of the Bank (continued)

Retail Division (continued)

Commercial Planning and Monitoring Office (continued)

The office assists the different functions of the Retail and Small business Division in the set up and the planning of the necessary action plans, in the event of significant deviations from the commercial targets. It is responsible for monitoring sales campaigns trends and their retention ratio, in cooperation with Multichannel & CRM.

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

Service Centre

Service Centre is responsible for support to the SB business network in the area of resolving inquiries related to the credit process and payment products and services.

The office is support to the SB business network in the area of central opening and account closing, as well as processing of non-standard contractual documentation in the part of the credit process for SB clients.

Service Centre has the aim to providing information and support for the use of the Bank's products and services for business clients through the contact centre. They execute proactive sales activities through outgoing calls, which includes the fulfilment of the contact strategy and onboarding calls to new clients of the Bank.

Additionally, the office is responsible for resolving business client complaints in cooperation with the SB business network and the Customer Satisfaction Office.

Development and management of business relationships with SB clients remotely, without physical contact with clients:

- Providing information to clients and supporting the use of the Bank's products and services.
- Conducting marketing campaigns and presentations of the Bank's products and services for the purpose of sales.

Network Management Department

The Network Management Office is responsible for organization, development, coordination, support and monitoring of the Retail Business Network, the fundamental distribution channel with Bank's retail clients, contact channels with retail clients and subcontractor sales network.

The most important responsibilities of the Office include managing retail regions and contact channels for retail clients, managing subcontractor sales, capital investments and investments into business network, HR management of business network, participating in specifying and dividing budget amounts and remodeling the setting of targets, measuring effects and awards in the business network and conducting development and education of HR, defining and continuously advancing modality, process, procedures and rules, and prescribing instructions for advancing modalities, processes, procedures and rules for prescribing instructions regarding regular planning, as well as planning and introducing new technologies in business, and development and supporting.

Mass Client Department

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

Business description of the Bank (continued)

Retail Division (continued)

Mass Client Department (continued)

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

Affluent Client Department

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

Private Client Department

The "Private" Client Department is responsible for defining and implementing business and commercials strategies products and services as well as value propositions and pricing for Private segment. Its task is also designing and updating the "customer journey", managing commercial coordination of the Private segment, and also managing and updating investment advisory services.

SB Department

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

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

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

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

The service model of clients has been fully implemented in a way that the arrival of clients is planned in advance by arranging a date for a meeting with the RM. The same contributed to a better organization of sales activities by the RM. In 2022 based on regulatory requirements, priority was given to updating client status data (KYC questionnaires, deep client analysis) and checking potentially suspicious and controversial transactions (Norkom alerts). At the same time the process of migrating clients to a new digital banking that offers Internet and mobile banking with new functionalities (#with KEY, #with SIGN) was launched.

SB department recognized the need to renovate earthquake-damaged buildings, which resulted in an update of the Model for crediting residential building owners for the renovation of common areas and appliances in residential housing, which approved the purpose of reconstruction of buildings after the earthquake, which placed the Bank as a market leader in this segment.

During 2022, the process of conversion kuna to euro was successfully finished, including adjustment of the Bank system to euro and activities for subfrontloading of SB clients with euro cash for the first days of the January in 2023.

Business description of the Bank (continued)

Corporate Division

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

Privredna banka Zagreb has developed a modern platform for supporting classic cash as well as other transactions of corporate clients within the Bank's network. A wide network of correspondent banks, and its SEPA reachability, make it possible for the Bank to offer its clients fast and affordable services in the area of international payments.

The bank operated directly through HSVP (Croatian System of Large Payments) and NKS (National Clearing System) and was able to conduct the transaction through the most convenient channel. HSVP and NKS domestic payment systems were shut down at the end of 2022 due to the introduction of the euro as the national currency. The Internet banking service for corporate clients – PBZ COM@NET, after being upgraded, is available for both domestic and international payments. In terms of investment banking, Privredna banka Zagreb is a dominant participant in the Croatian market. It has originated many contemporary products and has initiated and largely contributed to the development of the financial market in the country. Because of its active role in the primary and secondary capital market, PBZ has been recognized as a market leader. We are determined to keep the position of the best financial institution in the region. Such recognition has been given by our clients because of our ability to deliver the best service in everything we do.

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

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

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

Business description of the Bank (continued)

Corporate Division (continued)

Multinational Client Department

The Multinational Client Department is responsible for establishing and managing business relationships with companies in foreign ownership, foreign legal entities – non-residents, and it provides clients with a full range of banking services by offering both standardized and customized products in cooperation with other organizational units of the Bank as well as other members of the PBZ Group, and also in coordination with the Intesa Sanpaolo Group.

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

The Organisational unit also assists foreign investors in the process of establishing a company or a branch office in Croatia, provides general information about the terms and requirements for conducting business in Croatia and about effective regulations, as well as useful contacts with all the other relevant institutions in RH of key importance for the realisation of foreign investors' planned business activities in RH. The Department also renders information services to domestic clients about the terms and conditions for the opening of non-resident accounts in countries where the Intesa Sanpaolo Group is present and where the Bank's clients plan to operate and enables contacts and connections with potential business partners – clients of the Intesa Sanpaolo Group member banks in the country of planned business operation.

Financial Institutions Department

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

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

Business description of the Bank (continued)

Corporate Division (continued)

Financial Institutions Department (continued)

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

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

In order to provide all Bank's clients with the best possible yet diverse offer, the EU Desk team has been set up within the Financial Institutions Department which actively provides clients with information and advisory services regarding EU financial instruments, programmes and EU Tenders. The Bank participates in a number of EU financial instruments, which transform EU funds into financial products such as loans, guarantees, and other risk-bearing mechanisms. The Bank participates in granting of financial instruments such as 'ESIF Growth and Expansion Loans', 'ESIF Loans for Rural Development' - long-term investment loans for SME projects in the processing industry, tourism, creative industry and knowledge-based services, and in agriculture. Also, the Bank participates in several guarantee schemes. Thus, 'ESIF Capped Portfolio Guarantee', “COSME Capped Portfolio Guarantee” are financial instruments structured to support micro and medium sized enterprises. INNOVFIN is a financial instrument that supports projects of innovative SMEs and Small Mid-caps (with less than 499 employees). ERASMUS provides financial support to students from Croatia, studying for their Master’s degrees in one of the 33 Erasmus+ programme countries, and Privredna banka Zagreb is the only bank in Croatia that provides such support to Croatian students.

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

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

In an effort to alleviate negative effects of the COVID-19 pandemic on the Croatian economy and help entrepreneurs to preserve their financial stability and maintain liquidity, Privredna banka Zagreb. has enabled them to arrange moratoria on or reschedule already approved loans, as well as to obtain new liquidity loans.

For that purpose, the Bank has concluded a number of business cooperation agreements with both international and national development banks (European Investment Bank, European Investment Fund, Croatian Bank for Reconstruction and Development, Croatian Agency for SMEs, Innovation and Investments), which make it possible for the Bank and its clients to utilize the aid measures designed by the European Commission under the “Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak”.

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

Business description of the Bank (continued)

Corporate Division (continued)

Corporate Banking Products Department

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

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

Factoring

PBZ factoring, as one of the corporate banking products, refers to the purchase of short-term receivables of good quality, that have arisen as a result of the delivery of goods and the provision of services that took place between suppliers and buyers, on the basis of documents that prove the existence of receivables. By selling the receivables, the user of the factoring service can reduce the time needed for collection of its short-term receivables, originally subject to deferred payment, and in this way the client can significantly improve its liquidity, without having to take a loan.

PBZ Factoring Office engages in purchases of receivables created in the course of domestic and international trade of goods and services and is able to offer the following factoring services: domestic factoring, bills of exchange discounting, export factoring and import factoring.

Transaction banking

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

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

Business description of the Bank (continued)

Corporate Division (continued)

Corporate Banking Products Department (continued)

Investment analysis

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

Capital markets

PBZ has earned a reputation in the capital market as a leader in providing innovative financing solutions, which our capital market team has successfully designed and delivered to the state, to local government units, and also to a large number of corporate clients. Over the past period, a total of 52 clients used PBZ Capital Markets services in a total of 258 transactions.

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

Brokerage services

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

M&A Advisory Office

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

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

Business description of the Bank (continued)

Corporate Division (continued)

Corporate Banking Products Department (continued)

Structured Finance

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

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

Custody services and depositary services

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

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

SME Department

SME Department remains focused on the development of new products and the improvement of existing ones, implementation of innovative business applications and models, process optimisation, thus enabling more efficient banking services for over 4,000 clients – joint stock companies, limited liability companies, craft businesses and other business entities.

Clients can use the largest network of Branch Offices, ATMs (Cash-In/Cash-Out), day-night vaults and EFT POS terminals.

PBZ remains a market leader in banking technology, constantly working on Internet and mobile banking improvement and safety, which is reflected in the provision of related services such as digital banking for business entities, PBZCOM@NET, mPBZ, instant payments, SEPA direct debit, e-plaće (e-salaries), etc.

The major indicator of the quality of PBZ services is the increasing number of users, as well as the more frequent use of direct distribution channels. The use of VISA Premium business credit cards, VISA Electron debit cards linked to transaction accounts and the largest EFT POS terminals network is available through the support of PBZ Card d.o.o. as a PBZ Group member.

In cooperation with national and EU partners (HBOR, HAMAG, EIB, EBRD and EIF), the SME Department provides small and medium businesses with easier access to finance based on developed business models, including specific loan programs such as development loans for financing production, export, as well as other various programs or guarantee schemes.

Business description of the Bank (continued)

Corporate Division (continued)

SME Department (continued)

The Bank also participated in most of national COVID-19 recovery programs as well as in all programs offered directly or indirectly by the EU, with particular emphasis on EGF (European Guarantee Fund) guarantee schemes that provide easier access to financing for all clients, under more favourable pricing, and with lower or no additional collateral requirements.

The SME Department is primarily responsible for network management, business development, portfolio management and sales monitoring, coordination and sales support, as well as improvement of the service model, relevant processes and products.

The sales process within the SME Department is organised into 3 regions: Zagreb, Continental Croatia and Adriatic Croatia, with 10 regional Business Centres covering the whole country, and more than 70 employees ready to assist SME clients. The activities and responsibilities of regions and centres include the sale of Bank's products and services to SME clients (loans, deposits, guarantees, letters of credit, factoring, leasing, payment transactions, credit cards and other services), providing financial advices to clients and coordination of activities with other organisational parts of the Bank and PBZ Group members.

CRM & Network Support Office

The CRM and Network Support Office is responsible for sales support and implementation of CRM campaigns, internal reporting and data quality management related to Corporate and SME clients, product and services development and participation in projects related to legal entities and regulatory framework implementation, credit analysis activities related to corporate clients, support in the implementation of AML controls and reporting for Corporate and SME clients.

Support areas

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

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

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

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

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

Business description of the Bank (continued)

Support areas (continued)

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

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

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

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

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

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

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

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

Business description of the Bank (continued)

Support areas (continued)

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

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

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

Credit Policy & Rating Desk Office, Underwriting Department, Recovery Department and Credit Portfolio Analysis and Administration Department.

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

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

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

Business description of the Bank (continued)

Support areas (continued)

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

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

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

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

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

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

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

Business description of the Bank (continued)

Support areas (continued)

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

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

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

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

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

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

Business description of the Bank (continued)

Support areas (continued)

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

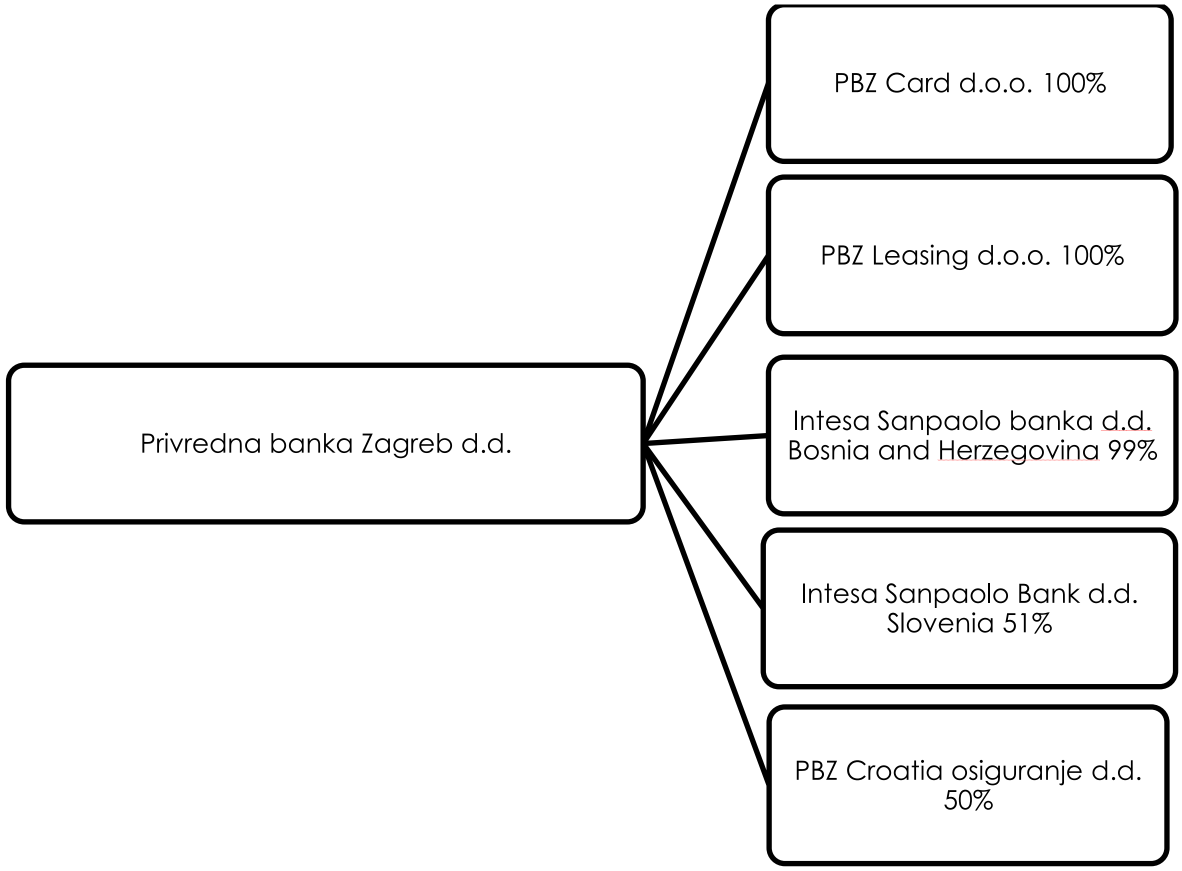
Business description of the Group

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

At the end of 2022 the Group employs 4,863 employees and serves almost 2 million both private and corporate clients in the three countries. PBZ Group is a well-organised institution whose market share in the overall banking system stands at 21.3 percent in Croatia (data from October 2022), 9.3 percent in Bosnia and Herzegovina and 7.3 percent in Slovenia.

On 31 December 2022 the Group consisted of Privredna banka Zagreb and 4 subsidiaries and one associate (31 December 2021: 5 subsidiaries and one associate).

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



PBZ Card d.o.o.

PBZ Card d.o.o. is a leading company in business with charge and credit cards for citizens and businesses, and also includes business with merchants to accept cards. The company's range includes a wide range of card products, including Premium Visa cards of PBZ Card d.o.o. and Visa and Mastercard cards of Privredna banka Zagreb, from charge, debit, credit, pre-paid and other cards, intended for individuals and legal entities. PBZ Card d.o.o. bases its success on rich knowledge and experience in card business built over fifty years and a strong position built by Privredna banka Zagreb as a leading bank in the introduction of new technologies and products in card business.

The year 2022 is the third year of PBZ Card's d.o.o. business with Premium Visa cards, in which, after the migration process of the American Express portfolio to Premium Visa cards was completed in 2020, business with Premium Visa cards fully came to life and they were fully accepted by users and business partners, including all their previous benefits as well as numerous new, innovative technologies and solutions brought to users by Visa.

Business description of the Group (continued)

PBZ Card d.o.o. (continued)

This resulted in a very successful business, including issuing and accepting cards, thanks to the increase in domestic consumption, strong growth in international consumption, due to a successful tourist season, and the growth of e-commerce.

During 2022, the digital transformation of the company's offer and business in general continued, which gained stronger momentum in 2020 and 2021 with the aim of successfully adapting the business and offer to the situation on the market caused by the COVID-19 pandemic as well as regulatory changes, enabling users to more easily and safer payment. Accordingly, the growth trend of contactless payments continued by introducing new and improving existing solutions and services that enable simpler and faster transactions, the security of which is at the same time at the highest level guaranteed by the 3-D Secure program. Furthermore, in the last year, communication activities towards card users were intensified, especially through digital channels, including the promotion a large number of special actions with points of sale, service and sale of cards with special benefits for new users. Activities to optimize the number of users and special programs for selecting and rewarding users depending on their preferences and spending habits continued. The offer to users has been further enriched by increasing the network of sales points with the possibility of instalment payments with the largest number of terms - up to 36 instalments without interest and fees, which also had a positive effect on cooperation with sales points. During the year, intensive work was done on a new application for points of sale - PBZ Card d.o.o. SoftPOS application intended for accepting cards via mobile phone or tablet, which offers customers an already familiar and simple way of purchasing, for which it is enough to touch a payment card, mobile phone or watch to a mobile device. The application allows the acceptance of all Visa, Mastercard and Maestro payment cards, and thanks to the sending of consumption records via SMS, e-mail, QR code, WhatsApp or Viber, instead of printing it, it contributes to the preservation of the environment and operates in accordance with sustainable development. The application can be used on mobile phones and tablets running on a minimum Android 8.0 operating system with an NFC antenna.

The year 2022 was marked by the project to introduce the euro, which became the official currency of the Republic of Croatia on January 1, 2023. Numerous company employees participated in this extensive and very demanding project, and it encompassed all business processes and business segments. In order to successfully complete the project, it was necessary to carefully plan all activities, adapt numerous business processes, as well as intensive communication activities towards users and points of sale, including timely and regular information on all news related to the use and acceptance of cards. Thanks to a complete and thorough approach to this project and its timely implementation in all phases of its development, PBZ Card d.o.o. enabled its users and service establishments to use all services and functionalities of Premium Visa cards without hindrance even after the introduction of the new currency.

In the middle of last year, PBZ Card d.o.o. announced the introduction of a new strategic partnership model with NETS CEE (now Nexi Croatia d.o.o.) in the field of payment card acceptance at points of sale, which will transfer the business of PBZ Card's d.o.o. card acceptance to NETS CEE, while PBZ Card d.o.o. will continue to perform its business contracting and development of the card acceptance network on the Croatian market in the name and on behalf of the company NETS CEE. Joint access to points of sale (merchants) of NETS CEE, part of Nexi Group, the leading European acceptor and processor of card business and investor in technology and innovation, and PBZ Card d.o.o., the leading card company in Croatia, will bring a number of benefits such as new, innovative services and technologies payments. This cooperation is a continuation of the already successful strategic partnership between Intesa Sanpaolo and Nexi in Italy. The aforementioned new business model will be implemented while ensuring continuity in the provision of card acceptance services at the points of sale of contractual partners/merchants, without the need for additional technological adjustments. The completion of this transaction, the value of which is EUR 180 million, and the establishment of a new card acceptance business model will be carried out after Nexi Croatia d.o.o. acquires the necessary authorizations from the competent authorities. The second part of the year was marked by intensive preparation for the transfer of card acceptance operations, as well as planning and creation of accompanying marketing and communication activities and materials.

Business description of the Group (continued)

PBZ Card d.o.o. (continued)

The Company retained its leading position on the domestic market in 2022. According to the latest publicly available data for the 3rd quarter of 2022, taking into account the number of cards, PBZ Group held a share of 30.66 percent of the total Croatian active card market, including the leading position in the credit card market with a share of 33.44 percent. The total user turnover achieved by Premium Visa, Visa and Mastercard card products in the first three quarters of 2022 across all channels accounted for 29.1 percent of the total turnover, while that achieved on POS devices amounted to 34 percent of the turnover of users of the Croatian card market made in the first three quarters of 2022. In the same period, PBZ Card d.o.o. maintained its leading position in terms of the total number of EFT POS devices, where it holds 22.2 percent of the market.

In 2022, a number of activities were carried out to strengthen the reputation of PBZ Card d.o.o. as a socially responsible company. Intensive work and promotion of the joint humanitarian project of PBZ and PBZ Card d.o.o. called "Doing Good Every Day" continued. By the end of 2022, a total of HRK 30.5 million has been collected for the project and 67 donations have been made, including donations to pediatric departments and children's hospitals and social welfare institutions, in order to improve the health and social care of children and youth throughout Croatia. During the year, the project was updated with news and two new projects of the Ministry of Health were introduced, which PBZ Group will support with allocated funds: "Heart for children with malignant diseases" and "Let's help those suffering from rare diseases", instead of the previous project "Monitoring children exposed to neurologic risks".

PBZ Leasing d.o.o.

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

From 2004, leasing has become core business activity of the company. Through finance and operating leases, the Company engaged in financing of real estates, personal and commercial vehicles, vessels, machinery and equipment. In the last year the Company made new leasing placements in amount of HRK 487 million.

By the end of 2022, PBZ Leasing d.o.o. made over 8.3 thousand (2021.: 8.1 thousand) lease arrangements with customers, which in financial terms reached HRK 998 million (2021; 920 million).

Intesa Sanpaolo Bank d.d. Bosnia and Herzegovina

Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina was established in Sarajevo in 2000 as UPI bank d.d. Sarajevo. In 2006 the main shareholder became Intesa Sanpaolo Holding S.A Luxembourg, with 94.92 percent of ownership. In July 2007, UPI banka finished the merger process with LT Gospodarska banka d.d. Sarajevo. In 2008 the Bank changed its name to Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina.

Part of Intesa Sanpaolo Group from Italy, the Bank’s majority shareholding was purchased in July 2015 by former sister company Privredna Banka Zagreb, within the framework of an equity investments portfolio reorganization undertaken by the parent group, that during 2017 became 99.99 percent owner of the Bank.

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

Business description of the Group (continued)

Intesa Sanpaolo Bank d.d. Bosnia and Herzegovina (continued)

As of September 2022, Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina is the 6th bank in Bosnia and Herzegovina by Total Assets, present in the country with 40 agencies in the Federation of Bosnia and Herzegovina and 5 agencies in Republika Srpska. Its business operations are mainly concentrated (95 percent of Total Assets) in Federation of Bosnia and Herzegovina, where the Bank ranks 3rd in total assets, loans and deposits, with respective market shares of 9.3 percent in Total Assets, 10.1 percent in loans and 8.4 percent in Deposits.

Intesa Sanpaolo Bank d.d. Slovenia

Intesa Sanpaolo Bank d.d. Slovenia, formerly known as Banka Koper, was founded in 1955 and is the 4th largest commercial bank in Slovenia in terms of total assets, loans and deposits. The bank operates through a network of 41 branch offices located in the major Slovenian cities throughout the country.

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

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

PBZ Croatia Osiguranje d.d.

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

The principal activities of PBZ Croatia Osiguranje d.d. include establishing and management of the compulsory pension funds category A, B and C. Following the initial stages of gathering members, PBZ Croatia Osiguranje d.d. fund category B became one of the three largest compulsory funds in the country. The company's pension funds continued to operate solidly during extremely volatile 2022.

At this point, pension funds under management have nearly 458 thousand members and net assets in personal accounts exceeding HRK 22.9 billion, which represents a sound base for the long-term stable and profitable operation of the company.

Overview of activities within the PBZ corporate social responsibility programme

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

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

From formalization through the establishment of a responsible organizational unit in 2019, the CSR strategy in PBZ Group in Croatia (Bank, PBZ Card d.o.o., PBZ Leasing d.o.o.) developed from thematic initiatives aimed at various stakeholders, to the clustering of CSR activities into dedicated concepts in 2022 with the aim of creating synergistic effects and CSR impact strengthening.

CSR plan 2022 contained 5 streams:

1. Family Friendly Concept for Employees
2. PBZ Forest and Environmental initiatives
3. Financial Literacy and Community Support
4. Governance model
5. Corporate Culture in SmartWork context

Additionally, with sustainability recognised as a matter of great and growing importance for society, ESG governance model became operational in 2022 through setting up a framework for raising ESG awareness and development of sustainable products, while being supported by the Bank's governance framework, such as Code of Ethics, Code of Conduct and other internal policies.

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

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

Customers

General focus in 2022 was set on preparatory activities for Euro introduction. Change of currency, though primarily business driven project, requires preparation and adjustment also from client side. Therefore, in order for Bank's clients, both individual and business entities, to be timely informed about the process of introducing the Euro, communication activities toward clients started in July 2022. For quality preparation of our employees, a series of internal communication activities were conducted and 25.000 training hours on EURO conversion topic delivered. PBZ was the first bank that published dedicated Euro site of banks website. In order to facilitate the adjustment to the euro, the bank has dually displayed all the important information and prices throughout all available channels prior to the mandatory deadline. The Bank is also a signatory of the Code of Ethics for the introduction of euro as the official currency in Croatia.

The second emphasis was set on development of ESG purpose-related products and activities. In the 2022, Bank launched 4 new ESG products and activities for Retail & Wealth Management (WM) area:

1. PBZ youth package (ongoing since Jan 2022)
2. Activities for refugees from Ukraine (ongoing since Mar 2022)
3. Initiated distribution of Eurizon ESG funds (ongoing since Sep 2022)
4. Parents@work (ongoing since Nov 2022)

Retail & WM also made improvements in existing Energo loans which are the most important green products in Retail product catalogue (ongoing since Jun 2022) and resulted with over 65 million EUR disbursement at the end of 2022 through the Energy loan product and the Model loan dedicated to SMEs for energy efficiency. For corporate and SME clients, PBZ approved 24 investments in 2022 in total amount 27 million EUR to be covered by Circular/Green Plafond of Intesa Sanpaolo.

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

Customers (continued)

In addition to restructuring and repositioning the traditional distribution channels of the business network, PBZ continues to develop and improve its direct banking distribution channels making the mobile banking app and internet banking solution more accessible to customers by abolishing the fees for the first three months of using the service. Leveraging PBZ Digital Banking, Bank is raising awareness on sustainability through various actions and ISP Group initiatives. An example is parents bank initiative #withEARTH, aimed at raising awareness of the importance of the biodiversity preservation for the celebration of the Earth Day that customers could contributed to through easy, in-a-few taps, #withPAY functionality.

Finally, Bank is continuously improving communication channels with clients in order to be available to clients anytime and anywhere with accurate, timely and clear information. Clients' complaints are resolved in accordance with regulatory and internal rules, and 99% of all customer complaints were successfully resolved in the observed year.

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

Community

In local community in which Bank operates, most prominent and recognizable impact is created through Financial Literacy initiatives and donations.

Since 2017, PBZ takes part in the Intesa Sanpaolo's *the Art of Saving* initiative, which was created at the Museum of Saving in Turin (Museo del Risparmio). The initiative introduced strategic volunteering for the purpose of financial education for young people and students, providing them with elementary financial education. In 2022, PBZ volunteers educated more than 700 children through 40 workshops on World Savings Day. Since the beginning of initiative, total of 250 workshops were conducted all over Croatia. Additionally, on the occasion of the celebration of the European Money Week, PBZ, in cooperation with the Šibenik Quiz Association, prepared an edutainment online quiz for high school students in which 444 students from 29 schools and 20 cities took part. Our employees conduct workshops in schools as part of the concept of corporate volunteering. In the financial literacy project during 2022, they realized 90 hours of volunteering in the community.

To support students and young people entering the world of personal finances, Bank published informative (non-commercial) brochure that shows in a simple way the basic steps and financial terms related to the household budget and savings. The brochure is available on Banks website and is being distributed during student-related employer branding events.

Donations represent most visible and impactful activity around community support. The general PBZ donation priorities are to make a tangible social contribution to the community in terms of social inclusion, the environment, culture, education. PBZ Group supports projects and initiatives with a direct local impact developed for the local community and projects that revolve around solidarity, social utility, environmental protection, and the promotion of culture. Bank also supports relationships with universities and schools, initiatives that encourage education and training for young people and their access to the world of work. Annual donation budget of over 265 thousand EUR in 2022 was distributed in following manner:

- Cultural and educational area (40%)
- Social and environmental area (40%)
- Health area (20%)

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

Community (continued)

Among the community-oriented initiatives, we highlight the ‘Visa-card with a heart’ initiative that supports the humanitarian project "Doing Good Every Day". For almost fifteen years, this initiative has been supporting national, long-term projects for the benefit of children and youth, while responding to the current needs of our society. By the end of 2022, a total of more than EUR 4 million had been collected for the project and 67 donations were made, including donations to paediatric wards and children's hospitals and social welfare institutions, in order to improve health and social care for children and youth throughout Croatia. Details of the project and amounts devoted to it are available on the website https://www.cinimdobro.hr/.

Among charitable initiatives, we present also the support to Milky Way virtual humanitarian race organized by UNICEF Croatia, which we have been providing since 2021. In 2022, the aim of initiative was to support standardized program of mental health literacy for teachers ‘PoMoZi Da’ through which over 400 teachers will be trained to recognize mental health problems in children and young people and provide psychological first aid and support. PBZ team consisted of 45 participants that contributed with registered 3,453 kilometres.

Employees

The most important indicators of PBZ people practices could be provided through the received **Top** Employer award 2023 for country/region. Top Employers Institute is the global authority on recognising excellence in people practices and the Top Employer label rewards the best global companies by examining aspects including the organization's HR and career development processes in each of its countries. PBZ met the criteria in all streams and stood out with outstanding results in Business strategy, Diversity and Inclusion, People strategy and Sustainability.

Similar recognitions in 2022 that confirmed the quality of PBZ HR practices are the renewal of the Certificate Employer Partner by Selectio, the Family Friendly Employer" recognition, Golden Index Award by Student Association eStudent in the Scholarships category and the Best Employer Brand Awards Adria in the Banking category for AML Academy.

Wellbeing

Activities toward employees are continuously being upgraded. During 2022, as part of the annual plan of CSR activities, the concept of PBZ Family Practices was established. The baseline was already existing through banks standard CSR offer such as corporate kindergarten, sport association PBZ Standard with included Multisport offer, MamaSoon program for pregnant women and new mothers, periodic health checks and therapies, solidarity aid, discounts for employees with contracted partners, PBZ Retirement club etc.

Through new holistic concept we have summarized these existing family friendly practices with a series of new initiatives to synergistically strengthen the effect of our activities, such as the introduction of a day off for parents of first-graders, online workshops on supportive parenting, PBZvjezdice - a competition for employees and their children who achieved outstanding results in the sports, art and science categories, numerous Advent events for the youngest and Personal Finance training for employees. The final aim of Family Practice Concept is to create added value to our employees in all life stages and ages through providing organizational, financial and qualitative support and thus fostering a work-private balance.

In addition, through programs initiated by parent bank, employees had the opportunity to participate in ISBD Sport Events and to enrol their children in two-weeks long ISBD Summer Camp or AFS Intercultura scholarship that enables a one-year international exchange. Within ISBD perimeter, the ISBD International Healthcare Programme (ISBD IHP) was once more renewed. The ISBD IHP provides to employees with an indefinite-term employment relationship and their family members second medical opinions, medical treatments in top-level health facilities, assistance in the event of serious illnesses, covers treatment and complementary service costs etc.

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

Wellbeing (continued)

We are proud that for accomplishments and endeavours in wellbeing segment PBZ received "Family Friendly Employer" recognition for 2022 in the category of large companies, award given by the Central State Office for Demography and Youth. An annual "Family Friendly Employer" award is given to the companies with the best solution in achieving a work-life balance and atmosphere for employees.

SmartWork

Throughout the overall Covid-19 pandemic period, the Bank had implemented SmartWork – flexible work modalities outside the business premises in all business functions of the Bank where such work organization is applicable. Such scope and speed of adaptation were possible thanks to the basic SmartWork concept that was introduced at the beginning of 2020. During 2021-2022, more detailed pilot project was conducted in order to define a holistic concept of flexible work modalities as a standard working attribute. At the end of 2022, the Bank's management adopted proposed concept of SmartWork.

Internal communication

PBZ internal communication platform consists of Intranet with daily updated news, PBZ Espresso-weekly overview of the most important internal news and PBZXpress – monthly newspaper in digital format which we have been publishing continuously for more than 15 years.

In 2022, in addition to previous, we implemented new platform called Jenz. The Jenz App is a closed social network for employees aimed at improvement of internal culture through strengthening connection between the colleagues and sense of belonging. In the first year of implementation Jenz reached 1000 users within the PBZ Group, 237 official stories and 1,138 social stories were posted, and 473 praises between colleagues have been exchanged.

Diversity and Inclusion

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

To ensure the retention and acceptance of these Principles, Bank published a training module that in concise and interactive way raises awareness and knowledge level on D&I topic among employees with summarized result of 1,454 training hours. Within the D&I strategy in 2022, most prominent initiative that promotes inclusivity in our everyday corporate culture as well as positive examples of managers as role models was PBZ inclusive manager contest conducted during the European Diversity Month. The interest and recognition of the importance of this topic is visible through the response of employees and a total of over 200 nominations.

Career and Development

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

In 2022, 96% of all employees received at least one training, and over 146 thousand training hours were realized.

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

Career and Development (continued)

For the 2022, we highlight the following data:

- The training modules that impact integrity of corporate conduct and protection of customers are on the rise. One of the examples are anti-money loundering topics (AML) and corruption and bribery prevention (ABC courses) with significantly increased realization of 16.329 training hours
- Special attention was given to the ESG topics with the result of 14.187 training hours

- Talent management in 2022 included 312 PBZ talents nominees for the 3rd cycle of the International Talent Program (ITP). The program confirmed the key factors of this initiative such as personalized itineraries of the talents based on the profile, the attitudes of the participants and the experiences already gained as well as international experiences in the various ISP Group structures.

- 16th generation of the "PBZ Business School" conducted modules in hybrid mode (digital and on-site) and the graduates were celebrated in small ceremony. New generation of 103 participants was enrolled in two programs: General Management and Operational and Sales Management. Since the beginning in 2007, more than 1.150 employees graduated of one or both programs of the "PBZ Business School'.

- For the 4th consecutive year, an ongoing training program as a mandatory program and a part of suitability criteria verification has been prepared in collaboration with two renowned houses. Supervisory and Management Board, Key functions of the Bank but also all executive managers have had a chance to choose between 15 different strategic and leadership topics. Some of the topics were: Innovation as the enabler to the sustainable growth, Anti-Money Laundering and Terrorist Financing (AML), Digital transformation on banking market, Cyber risk management, ESG challenges in Financial Services Industry, The Future of Work and Managing People, Leadership and Creativity etc. In total 94 of our Top Managers were included in this training program participating in their own pace through the last quarter of 2022

- For all new members of the Supervisory and Management Board, Bank organizes an overall onboarding / initial training initial training with the aim of better understanding the structure, business model, risk profile and management system of the Bank and PBZ Group, as well as their new roles at the Bank. There were 3 new appointments in 2022 which makes overall 112 hours of introductory education.

Environment and climate change

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

In 2021 Intesa Sanpaolo, parent bank of PBZ, committed to a target of net zero emissions by 2030, both for its own emissions and those of its loan and investment portfolios, and joined the Net-Zero Banking Alliance (NZBA) to boost the shared effort to combat climate change.

PBZ contributes to these targets in accordance with the approach of the parent bank and 'Rules for the environmental and energy policy' also through own emission initiatives from which we present main results:

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

Environment and climate change (continued)

Paper consumption

Duplex copying of documents as a standard setting, reusable envelopes and similar activities results in a continuous trend of paper consumption reduction which in 2022 for the perimeter of PBZ Group (Bank, PBZ Card d.o.o., PBZ Leasing d.o.o.) amounted to 312,638 kg, while the use of recycled paper and eco-sustainable paper (paper that is in possession of an eco-label that certifies that the paper is produced either without polluting whitening agents or through sustainable forest management for example FSC, PEFC, ETC / TCF, etc ...) is constantly increasing. It is important to point out of total paper consumption, 16.60% (51,904kg) refers to recycled paper, while 35% (110,230 kg) refers to paper with eco-sustainable label certificate.

Energy consumption

LED technology, air conditioners with inverter technology with a higher degree of energy efficiency, the material and elements of quality insulation properties and ventilation with heat recovery, waste management system are considered standard practise in the Bank. In 2022, first rooftop photovoltaic power plant was built on the roof of PBZ group head office in Split with estimated 62 MWh annual production. For energy efficiency monitoring, PBZ Group has in place platform for systematic management of energy and energy products. During 2022, PBZ Group in Croatia consumed a total of 14.5 GWh of electric power.

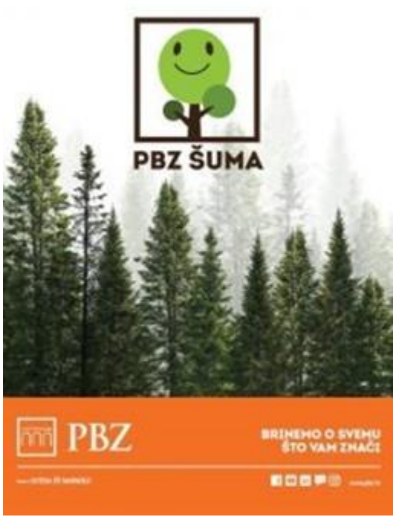
In 2022. the Bank took a number of active measures to reduce carbon dioxide emissions. The Bank's old car-sharing vehicles have been replaced by environmentally friendly, low-CO2 vehicles. Currently in the transport sharing system:

- 5% of vehicles meet the Euro 5 standard
- 90% of vehicles meet the Euro 6 standard
- 5% of vehicles are electrical

PBZ Forest

"PBZ forest" started as a small green story in 2021 and continued in April 2022 with the second drone afforestation campaign in the municipality of Promina organized in cooperation with Projekt O2 on the occasion of Earth Day. Over the course of two years PBZ, reforested 20,000 m2 of hard-to-reach burned areas. It is important to highlight that PBZ Forest, which will contribute to the reduction of greenhouse gases, does not harm the biodiversity of the location since the seeds used in self-germinating packets are exclusively from autochthonous tree species specific to the area being reforested.

For more information about our projects and initiatives visit PBZ Blog http://pbzblog.pbz.hr/



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

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

Environment and climate change (continued)

PBZ Forest (continued)

On the occasion of Planet Earth Day, PBZ joined #withEarth initiative that was initiated by the parent bank and conducted within the ISBD perimeter and in which PBZ contributed to the preservation of biodiversity by supporting WWF with around 102 thousand euros on ISP level. Within the initiative, banks also invited their customers to contribute to sustainability by choosing digital and paperless way of banking.

Governance framework

ESG governance model focused on sustainability is supported by the Bank's governance framework from which we highlight the Code of Ethics, Rules on internal reporting violations and Diversity and Inclusion Principles.

The Code of ethics defines the values of PBZ Group and describes the principles of behaviour that derive from them in the context of relations with each stakeholder. Every employee of the Bank and member of the PBZ Group is obliged to become familiar with the Code of Ethics and consistently act according to it in their daily work. The Code describes the values that the PBZ Group believes in and is committed to, setting out the principles of conduct derived from the context of relationships with all stakeholders and, consequently, raising the standards that each person in the organization must maintain to earn the trust of all stakeholders. The application of the Code of Ethics requires a consistent interpretation of the principles of conduct in all companies of the PBZ Group. Observed irregularities or violations of the Code of Ethics are reported to the dedicated address Etickikodeks.PBZGrupa@pbz.hr and resolved in accordance with internal procedures. In 2022 there were no substantiated reports of non-compliance with the Code of Ethics.

The PBZ Group has a system of PBZ Rules on internal reporting violations (whistleblowing) for any violation of the company's internal policies and procedures, for example the Bank's Code of Conduct, the Bank's anti-corruption guidelines, procurement rules, transparency in the promotion and placement of banking and financial products and services, as well as the management of gifts and entertainment expenses, and any behaviour that leads to a conflict of interest due to non-compliance with the rules and control procedures that are provided for such situations - for example, a conflict of interest of an employee due to personal interest. ‘Annual report on the proper functioning of the adopted internal reporting violations system for the year 2022’ concluded that the system allows to the Bank’s employees to report, with absolute confidentiality, facts or behaviours that may constitute an infringement of the rules governing banking activity or any other irregular conduct and that reporting system is compliant with the provisions of the Croatian Informant Protection Act and PBZ rules and acts.

Privredna banka Zagreb adopted the ‘PBZ Group Diversity and Inclusion Principles’ to reaffirm and make more effective its commitment to implementing and disseminating policies to include all forms of diversity in accordance with the principles of the Code of Ethics and the Code of Conduct. These Principles came as continuation of efforts Bank provides for D&I area since it joined the Charter on Diversity in Croatia as one of the first signatories in 2017. Following the adoption of D&I Principles, D&I Strategy was developed that, among other, included compulsory interactive education on the topic, establishment of the PBZ Group Diversity and Inclusion Committee (D&I Committee) and publication of Guidelines for suppliers and collaborators.

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

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

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

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

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

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

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

The separate and consolidated financial statements on pages 73 to 231 as well as supplementary forms for the Croatian National Bank and reconciliation of the statutory financial statements with the supplementary forms for the Croatian National Bank, set out on pages 232 to 280 and Management Board Report for the Bank and the Group on pages 8 to 25, Report from the President of the Supervisory Board on pages 6 to 7 and other information on pages 3 to 5 and 26 to 63 are approved by the Management Board on 20 February 2023 as confirmed by the signatures below.

For and on behalf of Privredna banka Zagreb.

Dinko Lucić	Dario Massimo Grassani
President of the Management Board	*Deputy President of the Management Board*
Antonio Bergalio	Vedrana Jelušić Kašić
Member of the Management Board	*Member of the Management Board*
Draženko Kopljar	Andrea Pavlović
Member of the Management Board	*Member of the Management Board*
Hrvoje Dajak	
Member of the Management Board	

13 March 2023

Ernst & Young d.o.o.
Radnička cesta 50, 10 000 Zagreb
Hrvatska / Croatia
MBS: 080435407
OIB: 58960122779
PDV br. / VAT no.: HR58960122779

Tel: +385 1 5800 800
Fax: +385 1 5800 888
www.ey.com/hr

Banka / Bank:
Erste & Steiermärkische Bank d.d.
Jadranski trg 3A, 51000 Rijeka
Hrvatska / Croatia
IBAN: HR3324020061100280716
SWIFT: ESBCHR22

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of PRIVREDNA BANKA ZAGREB – DIONIČKO DRUŠTVO

Report on the audit of the separate and consolidated financial statements

Opinion

We have audited the separate financial statements of PRIVREDNA BANKA ZAGREB – DIONIČKO DRUŠTVO (the Bank), and consolidated financial statements of PRIVREDNA BANKA ZAGREB – DIONIČKO DRUŠTVO and its subsidiaries (together - the Group), which comprise the separate and consolidated statement of financial position as at 31 December 2022, the separate and consolidated income statement and the separate and consolidated statement of other comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Bank and the Group as at 31 December 2022 and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for opinion

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

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

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

Key audit matters

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

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

Impairment allowances of Loans and advances to customers	
See Note 25 Loans and advances to customers and Note 47 Financial risk management policies Impairment allowances on Loans and advances from customers represent management's best estimate of the expected credit losses within the loan portfolios at the reporting date. For defaulted loans that are considered to be individually significant or non-performing corporate exposures exceeding HRK 3 million, the impairment assessment is based on the knowledge of each individual debtor and often on estimation of the fair value of the related collateral. Related impairment allowances are determined on an individual basis by means of a discounted cash flows analysis. Impairment allowances for retail exposures as well as corporate exposures below HRK 3 million individually (together "collective impairment allowance") are determined by modelling techniques. Historical experience, identification of exposures with a significant deterioration in credit quality, forward-looking information and management judgement are incorporated into the model. The Bank and the Group are continuously recalibrating the model parameters which also requires our increased attention in the audit. Furthermore, allocation of loan exposures in a proper stage depends on Bank's and Group's judgment and assumptions on selection of triggers for identification of significant increase in credit risk of customers. Additionally, uncertain economic outlook resulted in more complex assessment of this effect onto expected credit loss model. This area is determined to be a key audit matter as the determination of the appropriate amount of impairment losses requires the application of significant judgement and use of subjective and complex assumptions by management.	Our work covered impairment of both retail receivables and receivables from corporate counterparties. With the assistance of IT specialists, we assessed the design and tested the operating effectiveness of the controls, including the quality of underlying data and systems. With the assistance of credit risk specialists, we assessed the methodology developed to calculate loan loss provision, concentrating on such aspects as factors for determining a *"significant increase in credit risk"*, allocating loans to stages, appropriateness of models used for calculation of Stage 1, Stage 2 and portion of Stage 3 allowances calculated on models (exposures below HRK 3 million) and estimation of key provisioning parameters. We evaluated appropriateness of calculation of probability of default ("PD") and loss given default ("LGD"). Additionally, with respect to models, we understood and assessed how the current macroeconomic expectations are incorporated in the model as part of forward- looking information. We examined a sample of exposures and performed procedures to evaluate the adequacy of classification of exposures in stages (including but not limited to recalculating the creditworthiness of clients, review of input parameters such as the PD, testing correctness of reported days past due, assessing adequacy of watch list status, forbearance status, assessing completeness of information on restructuring and moratoriums). For a selected sample of non-performing loans where impairment allowance is assessed on individual basis, we assessed the models, assumptions and data underlying the impairment identification and quantification including forecasts of future cash flows and valuation of underlying collateral.

Impairment allowances of Loans and advances to customers (continued)	
	We also incorporated assessment of the COVID-19 impact into our procedures. We examined a sample of loan exposures and when performing analysis, we also assessed if their business was affected by COVID-19 pandemic and evaluated if there are triggers for significant increase in credit risk ("SICR") or default which may require client reclassification to Stage 2 or Stage 3. For individual Stage 3 assessment we observed how COVID-19 affected specific exposure and whether impact on projections of future cash flows was taken into account. We engaged internal risk modelling specialists to review forward looking information ("FLI") and input parameters used and to assess if current economic outlook was adequately reflected on the PD and the FLI. We also assessed whether the separate and consolidated financial statement disclosures appropriately reflect the Bank's and Group's exposure to credit risk and are compliant with the IFRS as adopted by the EU.

Building a better working world

INDEPENDENT AUDITOR'S REPORT (continued)

Provision for litigations related to loans originally issued in or indexed to Swiss Franc	
See Note 38 Provisions for liabilities and charges As of 31 December 2022, the Bank and the Group recorded provisions for litigation cases related to loans originally issued or indexed to Swiss Francs ("CHF"). The provision for litigation cases relates to loans that have been converted and to loans that have not been converted and are still denominated in CHF, including requests for nullifying loan agreements in full and requests for nullifying specific clauses of loan agreements. This area is determined to be a key audit matter as there considerable judgements and estimates in applying the r vant requirements to estimating both timing and size of flows of economic resources required to settle the Bank's Group's obligations resulting from these specific litiga claims, given their inherent uncertainty and volume.	Our work included assessment of provisions for claims related to both converted and non-converted loans. We obtained understanding of the process and methodology applied to estimating the provisions for litigation related to loans originally granted in CHF. We assessed the methodology internally developed by the Bank and the Group for the provisioning of the converted and non-converted CHF loans. We obtained a detailed overview of the litigation claims against the Bank and the Group and the analytics of the provisions recognized for these cases. We reconciled this information to the information provided in the financial statements and to the information received from external law firms as part of legal confirmation procedures. We obtained independent overviews and opinions pertaining to the Bank's and Group's litigation cases from the external law firms used by the management and we assessed the amounts of provisions for reasonableness by comparing provisions made with the external law firm's opinions and available information. We tested the calculation of the provisions for mathematical accuracy. We also assessed adequacy of the disclosures in the separate and consolidated financial statements and if these are if these are in line with requirements of IFRS as adopted by the EU.

Other information

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

With respect to the Management Report we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act.

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

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Bank on 26 April 2021. Our appointment has been renewed annually by General Assembly of Shareholders, with the most recent reappointment on 27 April 2022, representing a total period of uninterrupted engagement appointment of two years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on 27 February 2023 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

Report on Regulatory requirements

In accordance with the Bylaw on the structure and content of the annual financial statements of credit institutions (National Gazette no 42/18) (hereinafter "the Bylaw") the Bank's management has prepared forms which are presented on pages 232 to 280, and which contain a statement of financial position as at 31 December 2022, income statement, statement on other comprehensive income, statement of changes in equity and cash flow statement for the year then ended together with reconciliation with the separate and consolidated financial statements of the Bank and the Group ("financial information"). This financial information is the responsibility of the Bank's management and is, pursuant to statutory accounting regulation as applicable to banks in Croatia, not a required part of the separate and consolidated financial statements but is required by the Bylaw.

Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited separate and consolidated financial statements. In our opinion based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited separate and consolidated financial statements of the Bank which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU) as presented on pages 73 to 231 and are based on underlying accounting records of the Bank and the Group.

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

Zvonimir Madunić
Board member and Certified auditor

Ernst & Young d.o.o.
Radnička cesta 50, Zagreb
13 March 2023

Income statement

For the year ended 31 December

(in HRK million)

	Notes	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Interest income calculated using the effective interest method	6b	2,700	2,706	2,011	2,052
Other interest income	6b	32	35	10	29
Interest expense	6c	(197)	(199)	(123)	(116)
Net interest income		**2,535**	**2,542**	**1,898**	**1,965**
Fee and commission income	7a	2,056	1,863	1,126	998
Fee and commission expense	7b	(455)	(381)	(311)	(254)
Net fee and commission income		**1,601**	**1,482**	**815**	**744**
Dividend income	8	2	1	345	122
Net trading income and net gains on translation of monetary assets and liabilities	9	255	260	219	237
Fair value adjustment in hedge accounting	10	1	1	2	-
Other operating income	11	82	92	41	35
Total operating income		**4,476**	**4,378**	**3,320**	**3,103**
Net impairment losses on loans and advances to customers	14a	(110)	(52)	(10)	10
Other impairment losses and provisions	14b	(75)	(312)	(18)	(301)
Personnel expenses	12	(1,106)	(1,048)	(718)	(684)
Depreciation, amortisation and impairment of goodwill	15	(252)	(254)	(181)	(185)
Other operating expenses	13	(1,160)	(1,008)	(725)	(592)
Share of profits from associates	26	10	11	-	-
Profit before income tax		**1,783**	**1,715**	**1,668**	**1,351**
Income tax expense	16	(319)	(312)	(242)	(236)
Profit for the year		**1,464**	**1,403**	**1,426**	**1,115**
Attributable to:					
Equity holders of the Bank		1,404	1,338	1,426	1,115
Non-controlling interests		60	65	-	-
		1,464	**1,403**	**1,426**	**1,115**

The accompanying accounting policies and notes on pages 83 to 231 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 December

	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
				(in HRK million)
Profit for the year	**1,464**	**1,403**	**1,426**	**1,115**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Net value adjustment from valuation of property	-	*(4)*	-	*(1)*
Net change in fair value on equity instrument	*(6)*	*1*	-	-
Remeasurement of defined benefit liability	*8*	-	-	-
Related tax	2	2	2	1
	4	**(1)**	**2**	**-**
Items that are or may be reclassified to profit or loss				
Net change in fair value on debt instruments	*(208)*	*(60)*	*(140)*	*(33)*
Foreign exchange differences on translation of foreign operations	*11*	*(10)*	-	-
Net amount transferred to profit or loss	*33*	*14*	*(1)*	-
Related tax	*25*	*7*	*20*	6
	(139)	**(49)**	**(121)**	**(27)**
Other comprehensive income for the year, net of tax	**(135)**	**(50)**	**(119)**	**(27)**
Total comprehensive income for the year, net of tax	**1,329**	**1,353**	**1,307**	**1,088**
Attributable to:				
Equity holders of the Bank	1,272	1,294	1,307	1,088
Non-controlling interests	57	59	-	-
	1,329	**1,353**	**1,307**	**1,088**

The accompanying accounting policies and notes on pages 83 to 231 are an integral part of these financial statements.

Statement of financial position

As of 31 December

(in HRK million)

Assets	***Notes***	**GROUP** 2022	2021	**BANK** 2022	2021
Cash and current accounts with banks	18	46,444	35,885	38,647	27,403
Balances with the Croatian National Bank	19	2,976	4,533	2,976	4,533
Financial assets held for trading	21	545	1,135	545	1,135
Derivative financial assets	22a,b	652	43	297	37
Fair value changes of the hedged items in portfolio hedge of interest rate risk	22c	(493)	31	(295)	(3)
Loans and advances to banks	24a,c	7,851	6,230	5,571	4,659
Loans and advances to customers	25a	83,919	78,679	57,979	53,835
Investment securities	20	12,354	11,750	9,993	9,504
Investments in subsidiaries and associates	26	65	66	1,847	1,962
Other assets	31	307	206	187	119
Current tax assets		16	30	-	-
Property and equipment	28	1,729	1,791	1,062	1,078
Investment property	29	33	74	23	24
Non-current assets held for sale	30	314	23	8	8
Deferred tax assets	16c	187	136	134	83
Intangible assets	27	439	370	305	252
Total assets		**157,338**	**140,982**	**119,279**	**104,629**

The accompanying accounting policies and notes on pages 83 to 231 are an integral part of these financial statements.

Statement of financial position (continued)

As of 31 December

(in HRK million)

Liabilities	***Notes***	**GROUP** 2022	2021	**BANK** 2022	2021
Current accounts and deposits from banks	32	2,427	1,295	1,686	1,911
Current accounts and deposits from customers	33	126,702	109,980	95,528	81,112
Derivative financial liabilities	23a,b	19	98	8	1
Fair value changes of the hedged items in portfolio hedge of interest rate risk	23c	-	4	-	-
Current tax liability		75	18	68	11
Other liabilities	36	1,858	1,722	900	714
Accrued expenses and deferred income	37	411	318	165	148
Interest-bearing borrowings and other financial liabilities	34	4,894	6,972	3,273	3,597
Senior non-preferred debt	35	1,019	827	1,019	827
Provisions	38	782	737	670	665
Deferred tax liabilities	16d	79	82	29	31
Total liabilities		**138,266**	**122,053**	**103,346**	**89,017**
Equity					
Share capital	40a	1,877	1,907	1,877	1,907
Share premium	40b	1,570	1,570	1,570	1,570
Treasury shares	40c	-	(278)	-	(274)
Other reserves	40e	41	552	81	600
Fair value reserve	40f	(122)	3	(101)	(4)
Retained earnings	40g	14,508	13,972	12,506	11,813
Total equity attributable to equity holders of the Bank		**17,874**	**17,726**	**15,933**	**15,612**
Non-controlling interests		1,198	1,203	-	-
Total equity		**19,072**	**18,929**	**15,933**	**15,612**
Total liabilities and equity		**157,338**	**140,982**	**119,279**	**104,629**

The accompanying accounting policies and notes on pages 83 to 231 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December

					(in HRK million)
		GROUP		**BANK**	
	Notes	2022	2021	2022	2021
Cash flows from operating activities					
Profit before income tax		1,783	1,715	1,668	1,351
Impairment losses on loans and advances to customers	14a	110	52	10	(10)
Other impairment losses and provisions	14b	75	312	18	301
Gain on disposal of property and equipment, intangible assets and investment property	11	(12)	(30)	(2)	(6)
Depreciation, amortisation and impairment of goodwill	15	252	254	181	185
Net losses from securities at fair value through profit or loss	9	82	22	83	25
Share of profits from associates	26	(10)	(11)	-	-
Net interest income		(2,535)	(2,542)	(1,898)	(1,965)
Net losses on derecognition of financial assets not measured at fair value	11	1	2	1	2
Dividend income	8	(2)	(1)	(345)	(122)
		(256)	**(227)**	**(284)**	**(239)**
Decrease/(increase) in operating assets					
Balances with the Croatian National Bank		4,542	(502)	4,541	(502)
Loans and advances to banks		(267)	(584)	206	(105)
Loans and advances to customers		(5,158)	(3,771)	(3,138)	(2,773)
Financial assets at fair value through profit or loss and FVOCI financial assets and fair value changes of the hedged items in portfolio hedge of interest rate risk		(176)	33	89	(129)
Other assets		(485)	46	(25)	1
(Increase)/decrease in operating assets		***(1,544)***	***(4,778)***	***1,673***	***(3,508)***

The accompanying accounting policies and notes on pages 83 to 231 are an integral part of these financial statements.

Statement of cash flows (continued)

For the year ended 31 December

(in HRK million)

	Notes	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Increase/(decrease) in operating liabilities					
Current accounts and deposits from banks		1,091	(600)	(256)	(320)
Current accounts and deposits from customers		16,874	10,682	13,121	8,046
Other liabilities		245	774	123	(108)
Increase in operating liabilities		***18,210***	***10,856***	***12,988***	***7,618***
Interest received		2,373	2,779	1,673	2,088
Interest paid		(205)	(250)	(147)	(145)
Dividends received		12	11	345	122
Net cash inflow from operating activities before income taxes paid		**18,590**	**8,391**	**16,248**	**5,936**
Income tax paid		(275)	(277)	(217)	(225)
Net cash from operating activities		**18,315**	**8,114**	**16,031**	**5,711**
Cash flows from investing activities					
Purchase of property and equipment, intangible assets and investment property	27, 28,29	(373)	(356)	(259)	(293)
Disposal of property and equipment, intangible assets and investment property	27, 28,29	87	62	10	10
Disposal of non-current assets held for sale		12	30	-	-
Net cash used in investing activities		**(274)**	**(264)**	**(249)**	**(283)**
Cash flows from financing activities					
Dividends paid		(1,115)	(817)	(1,115)	(817)
Increase in interest-bearing borrowings and subordinated liabilities		(2,063)	1,387	(85)	894
Cancellation of treasury shares		-	(219)	-	(217)
Proceeds from sale of treasury shares		3	8	3	8
Cash paid for IFRS 16 leases		(114)	(108)	(94)	(102)
Cash acquired on merger of PBZ Stambena Štedionica d.d.		-	-	158	-
Net cash used in financing activities		**(3,289)**	**251**	**(1,133)**	**(234)**
Net increase in cash and cash equivalents		**14,752**	**8,101**	**14,649**	**5,194**
Cash and cash equivalents as at 1 January		39,994	31,877	31,555	26,345
Effect of exchange rate fluctuations on cash held		(5)	16	(5)	16
Cash and cash equivalents as at 31 December	41	**54,741**	**39,994**	**46,199**	**31,555**

The accompanying accounting policies and notes on pages 83 to 231 are an integral part of these financial statements.

Statement of changes in equity

(in HRK million)

Group	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	Non-controlling interest	**Total**
Balance as at 31 December 2021	**1,907**	**1,570**	**(278)**	**552**	**3**	**13,972**	**1,203**	**18,929**
Other comprehensive income								
Net change in fair value on equity instrument	-	-	-	-	(3)	-	(3)	**(6)**
Net change in fair value on debt instrument	-	-	-	-	(181)	-	(27)	**(208)**
Net amount transferred to the income statement	-	-	-	-	16	-	17	**33**
Related tax	-	-	-	-	24	-	3	**27**
Adjustment of premium on debt securities measured at fair value through other comprehensive income	-	-	-	-	29	(29)	-	**-**
Actuarial gain	-	-	-	4	-	-	4	**8**
Related tax from actuarial gain	-	-	-	(1)	-	-	-	**(1)**
Deferred tax on tangible assets	-	-	-	1	-	-	-	**1**
Foreign exchange differences on translation of foreign operations	-	-	-	8	-	-	3	**11**
Total other comprehensive income	**-**	**-**	**-**	**12**	**(115)**	**(29)**	**(3)**	**(135)**
Profit for the year	-	-	-	-	-	1,404	60	**1,464**
Total comprehensive income for the year	**-**	**-**	**-**	**12**	**(115)**	**1,375**	**57**	**1,329**
Dividends paid	-	-	-	-	-	(1,115)	-	**(1,115)**
Dividend paid by Intesa Sanpaolo Bank d.d. Slovenia	-	-	-	-	-	-	(62)	**(62)**
Sale of land and buildings	-	-	-	(2)	-	2	-	**-**
Cancellation of treasury shares	(30)	-	278	(517)	-	274	-	**5**
Stock-based payment	-	-	-	3	-	-	-	**3**
Transfer of retained earnings to legal reserve	-	-	-	3	-	(3)	-	**-**
Other movements	-	-	-	(10)	(10)	3	-	**(17)**
Transactions with owners, recorded directly in equity	**(30)**	**-**	**278**	**(523)**	**(10)**	**(839)**	**(62)**	**(1,186)**
Balance as at 31 December 2022	**1,877**	**1,570**	**-**	**41**	**(122)**	**14,508**	**1,198**	**19,072**

The accompanying accounting policies and notes on pages 83 to 231 are an integral part of these financial statements.

Statement of changes in equity (continued)

(in HRK million)

Group	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	Non-controlling interest	**Total**
Balance as at 31 December 2020	**1,907**	**1,570**	**(70)**	**274**	**41**	**13,733**	**1,169**	**18,624**
Other comprehensive income								
Net change in fair value on equity instrument	-	-	-	-	-	-	1	**1**
Net change in fair value on debt instrument	-	-	-	-	(51)	-	(9)	**(60)**
Net amount transferred to the income statement	-	-	-	-	7	-	7	**14**
Related tax	-	-	-	-	6	-	1	**7**
Reversal of revaluation reserve of land and buildings	-	-	-	(2)	-	-	(2)	**(4)**
Deferred tax on tangible assets	-	-	-	1	-	-	1	**2**
Foreign exchange differences on translation of foreign operations	-	-	-	(5)	-	-	(5)	**(10)**
Total other comprehensive income	**-**	**-**	**-**	**(6)**	**(38)**	**-**	**(6)**	**(50)**
Profit for the year	-	-	-	-	-	1,338	65	**1,403**
Total comprehensive income for the year	**-**	**-**	**-**	**(6)**	**(38)**	**1,338**	**59**	**1,353**
Dividends paid	-	-	-	(817)	-	-	-	**(817)**
Dividend paid by Intesa Sanpaolo Bank d.d. Slovenia	-	-	-	-	-	-	(25)	**(25)**
Purchase and sale of treasury shares	-	-	(219)	-	-	-	-	**(219)**
Stock-based payment	-	-	11	(4)	-	-	-	**7**
Transfer of net profit earned in 2020 to other reserves	-	-	-	817	-	(817)	-	-
Transfer of retained earnings to treasury reserve	-	-	-	174	-	(174)	-	-
Transfer of retained earnings to statutory reserve by Intesa Sanpaolo Bank d.d. Slovenia	-	-	-	117	-	(117)	-	-
Other movements	-	-	-	(3)	-	9	-	6
Transactions with owners, recorded directly in equity	**-**	**-**	**(208)**	**284**	**-**	**(1,099)**	**(25)**	**(1,048)**
Balance as at 31 December 2021	**1,907**	**1,570**	**(278)**	**552**	**3**	**13,972**	**1,203**	**18,929**

The accompanying accounting policies and notes on pages 83 to 231 are an integral part of these financial statements.

Statement of changes in equity (continued)

(in HRK million)

Bank	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	**Total**
Balance as at 31 December 2021							
Other comprehensive income	**1,907**	**1,570**	**(274)**	**600**	**(4)**	**11,813**	**15,612**
Net change in fair value on equity instrument							
Net change in fair value on debt instrument	-	-	-	-	(140)	-	**(140)**
Net amount transferred to the income statement	-	-	-	-	(1)	-	**(1)**
Related tax	-	-	-	-	21	-	**21**
Adjustment of premium on debt securities measured at fair value through other comprehensive income	-	-	-	-	29	(29)	**-**
Deferred tax on tangible assets	-	-	-	1	-	-	**1**
Total other comprehensive income	**-**	**-**	**-**	**1**	**(91)**	**(29)**	**(119)**
Profit for the year	-	-	-	-	-	1,426	**1,426**
Total comprehensive income for the year	**-**	**-**	**-**	**1**	**(91)**	**1,397**	**1,307**
Merger with PBZ Stambena Štedionica d.d. (Note 26)	-	-	-	6	1	127	**134**
Dividends paid	-	-	-	-	-	(1,115)	**(1,115)**
Cancellation of treasury shares (Note 40)	(30)	-	274	(518)	-	274	**-**
Stock-based payment	-	-	-	3	-	-	**3**
Sale of land and buildings	-	-	-	(2)	-	2	**-**
Other movements	-	-	-	(9)	(7)	8	**(8)**
Transactions with owners, recorded directly in equity	**(30)**	**-**	**274**	**(520)**	**(6)**	**(704)**	**(986)**
Balance as at 31 December 2022	**1,877**	**1,570**	**-**	**81**	**(101)**	**12,506**	**15,933**

The accompanying accounting policies and notes on pages 83 to 231 are an integral part of these financial statements.

Statement of changes in equity (continued)

(in HRK million)

Bank	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	**Total**
Balance as at 31 December 2020	**1,907**	**1,570**	**(68)**	**434**	**23**	**11,685**	**15,551**
Other comprehensive income							
Net change in fair value on debt instrument	-	-	-	-	(33)	-	**(33)**
Related tax	-	-	-	-	6	-	**6**
Reversal of revaluation reserve of land and buildings	-	-	-	(1)	-	-	**(1)**
Deferred tax on tangible assets	-	-	-	1		-	**1**
Total other comprehensive income	**-**	**-**	**-**	**-**	**(27)**	**-**	**(27)**
Profit for the year	-	-	-	-	-	1,115	**1,115**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(27)**	**1,115**	**1,088**
Dividends paid	-	-	-	(817)	-	-	**(817)**
Purchase and sale of treasury shares	-	-	(217)	-	-	-	**(217)**
Stock-based payment	-	-	11	(4)	-	-	**7**
Transfer of net profit earned in 2020 to other reserves	-	-	-	817	-	(817)	-
Transfer of retained earnings to treasury reserve	-	-	-	174	-	(174)	-
Other movements	-	-	-	(4)	-	4	-
Transactions with owners, recorded directly in equity	**-**	**-**	**(206)**	**166**	**-**	**(987)**	**(1,027)**
Balance as at 31 December 2021	**1,907**	**1,570**	**(274)**	**600**	**(4)**	**11,813**	**15,612**

The accompanying accounting policies and notes on pages 83 to 231 are an integral part of these financial statements.

Notes to the financial statements

1 Reporting entity

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

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

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

2 Basis of preparation

a) Basis of accounting

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

These separate and consolidated financial statements were authorised for issue by the Management Board on 20 February 2023 for approval by the Supervisory Board.

b) Basis of measurement

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

c) Functional and presentation currency

The separate and consolidated financial statements are presented in Croatian kuna ("HRK") which is presentation currency of the Bank and the Group, Amounts are rounded to the nearest million, unless otherwise stated.

The exchange rates used for translation at 31 December 2022 amounted to EUR 1 = HRK 7.5345, CHF 1= HRK 7.652, USD 1 = HRK 7.064 and BAM 1 = HRK 3.852 (31 December 2021: EUR 1 = HRK 7.517, CHF 1= HRK 7.248, USD 1 = HRK 6.644 and BAM 1 = HRK 3.843).

During 2022 and 2021 BAM (official currency of Bosnia and Herzegovina) was pegged with Euro at 1 EUR = 1.9558 BAM.

d) Use of estimates and judgements

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

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

Notes to the financial statements (continued)

2 Basis of preparation (continued)

d) Use of estimates and judgements (continued)

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

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

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

The assets and liabilities acquired as a result of the merger are recognised at the carrying amounts recognised immediately before the merger in the financial statements of PBZ Stambena Štedionica. The assets, liabilities and equity assumed on the merger are summarised in Note 26 Investments in subsidiaries and associates.

3 Changes in accounting policies

Standards and Interpretations effective in the current period

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

- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements 2018-2020, all issued on 14 May 2020, (effective date for annual periods beginning on or after 1 January 2022).

The adoption of these Standards and Interpretations had no significant impact on the financial statements of the Bank and the Group.

Standards and Interpretations issued by IASB and endorsed by the EU but not yet effective

- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information, issued on 9 December 2021 (effective date for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction, issued on 7 May 2021 (effective date 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, issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates, issued on 12 February 2021 (effective date for annual periods beginning on or after 1 January 2023).
- IFRS 17 Insurance contracts, issued on 18 May 2017; including Amendments to IFRS 17 issued on 25 June 2020, (effective date for annual periods beginning on or after 1 January 2023).

Notes to the financial statements (continued)

3 Changes in accounting policies (continued)

Standards and Interpretations issued by IASB but not yet adopted by the EU

At the date of authorization of these financial statements the following standards, revisions and interpretations were in issue by the International Accounting Standards Board but not yet adopted by the EU:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date, issued on 23 January 2020 and 15 July 2020 respectively.
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback, issued on 22 September 2022.

The Bank and the Group does not anticipate that the adoption of these Standards and Interpretations will have a significant impact on the financial statements of the Company and the Group.

4 Significant accounting policies

a) Basis of consolidation

i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In reassessing its control conclusion, the Group has taken into consideration the structured entities and entities with receivables in default for which it reassessed whether the key decisions are made by the Group and whether the Group is exposed to variability of returns from those entities. Business combinations under common control are accounted for based on carrying values, with any effects directly recognised in equity.

Acquisitions on or after 1 January 2010

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the total is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the income statement.

4 Significant accounting policies (continued)

a) Basis of consolidation (continued)

i) Business combinations (continued)

Acquisitions prior to 1 January 2010

For acquisitions prior to 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in the income statement. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisitions.

ii) Non-controlling interests

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

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii) Subsidiaries

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

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. The Group controls an entity if it is exposed to, or has rights to, variable returns from the involvement with the entity and has the ability to alter those returns throughout its power over the entity. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated in preparing the consolidated financial statements. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

iv) Associates

Associates are entities over which the Group has significant influence but no control as the Group does not have power over the relevant activities of those entities. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition. In the Bank's separate financial statements investments in associates are accounted at cost less impairment.

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

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

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

a) Basis of consolidation (continued)

iv) Associates (continued)

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

v) Acquisition of entities under common control

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

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

vi) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interest and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments (refer to accounting policy in Note 4 l) Financial instruments) depending on the level of influence retained.

vii) Transactions eliminated on consolidation

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

viii) Fund management

The Group manages and administers assets held in mutual funds on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity (during the reporting period). Information about the Group's fund management activities is set out in Note 42 Managed funds for and on behalf of third parties.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

b) Foreign currency

i) Foreign currency translation

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

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

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

ii) Foreign operations

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

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

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

c) Interest income and expense

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

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

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit- impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit- impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see l (xi).

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

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

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

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

d) Fee and commission income and expense

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

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

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

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

f) Other operating income

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

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

g) Employee benefits

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

i) Personnel social contributions

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

	2022	**2021**
Contributions to the Pension Fund	20.00%	20.00%
Contributions to the State Health Care Fund	16.50%	16.50%

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

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

g) Employee benefits (continued)

ii) Termination benefits

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

iii) Short-term employee benefits

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

iv) Share-based payment transactions

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

v) Retirement benefit obligation

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

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

h) Direct acquisition costs related to housing savings

Direct acquisition expenses related to housing savings contracts are deferred, to the extent that they are estimated to be recoverable, and amortised to the income statement on a straight-line basis over the life of the related contracts.

i) Dividend income

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

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

j) Income tax

The income tax expense comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

i) Current income tax

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

ii) Deferred income tax

Deferred taxes are calculated by using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the enterprise expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities, based on tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or long-term liabilities in the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Group reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

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

k) Cash and cash equivalents

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

l) Financial instruments

i) Recognition

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

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

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

ii) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

ii) Classification (continued)

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

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

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers a:

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

Loans and advances

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

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

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

Investment securities

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

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

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

ii) Classification (continued)

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

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

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

iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets, that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and consideration received (including any new asset obtained less any new liability assumed) is recognised in the income statement. In addition, any cumulative gain or loss that had been recognised in other comprehensive income is also recognised in the income statement.

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

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. If transfer does not result in derecognition because the Group retained all or substantially all risks and rewards of ownership, the assets are not derecognised and liabilities secured with collateral are recognised in the amount of consideration received.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire, If the terms of a financial liability are significantly modified, the Group will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.

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

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

iv) Modifications of financial assets and liabilities

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

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

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

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

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

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

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

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

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

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

v) Reclassification

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

vi) Offsetting of financial instruments

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

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

vii) Initial and subsequent measurement

When a financial asset or financial liability is recognised initially, the Group measures it at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs which are directly attributable to the acquisition or issue of the financial asset or financial liability. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are immediately charged to the income statement.

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

Loans and receivables and other financial liabilities are measured at amortised cost (less any ECL for the assets) using the effective interest method.

viii) Gains and losses

Gains and losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss as well as all related realised gains and losses arising upon a sale or other derecognition of such assets and liabilities are recognised in the income statement.

Gains and losses from a change in the fair value of financial instruments measured at FVOCI are recognised directly in a fair value reserve in other comprehensive income, net of deferred tax, and are disclosed in the statement of changes in equity. Loss allowances, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on financial instruments measured at FVOCI monetary assets are recognised in the income statement. Loss allowances on non-monetary financial instruments measured at FVOCI assets are also recognised in the income statement, Foreign exchange differences on non-monetary financial instruments measured at FVOCI are recognised in other comprehensive income, net of deferred tax. Dividend income is recognised in the income statement.

Gains and losses on financial instruments carried at amortised cost may also arise, and are recognised in the income statement, when a financial instrument is derecognised or when its value is impaired.

ix) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

x) Fair value measurement principles

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

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

If there is no quoted price in an active market, then the Group uses valuation techniques (except for certain unquoted equity securities). Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

The fair values of quoted investments are based on current closing bid prices.

The fair value of non-exchange-traded derivatives is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

xi) Impairment of financial assets

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

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

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

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

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

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

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

xi) Impairment of financial assets (continued)

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as “Stage 1 financial instruments”.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as “Stage 2 financial instruments”.

Measurement of ECL

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

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

Restructured financial assets

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

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

l) Financial instruments (continued)

xi) Impairment of financial assets (continued)

Credit-impaired financial assets

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision,
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component.
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

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

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

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

m) Derivative financial assets

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

Derivatives may be embedded in another contractual arrangement (a host contract), The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

n) Hedge accounting

The Group uses derivative financial instruments to manage its exposures to interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which they are entered to and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges could refer to:

- Fair value hedge – a hedge of exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment;
- Cash flow hedge – a hedge of the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction;
- Hedge of a net investment in a foreign currency.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged items fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are tested regularly throughout their life to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

The Group uses fair value hedge to cover exposure to changes in the fair value attributable to the different risk categories of assets and liabilities in the statement of financial position, or a portion of these or to cover portfolios of financial assets and liabilities.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

o) Sale and repurchase agreements

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

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

p) Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted at cost less impairment in the separate financial statements of the Bank. Investments in subsidiaries are fully consolidated in the consolidated financial statements whilst investments in associates are accounted for under the equity method.

q) Interest-bearing borrowings and subordinated debt

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

r) Current accounts and deposits from banks and customers

Current accounts and deposits are initially measured at fair value plus transaction costs, and subsequently stated at their amortised cost using the effective interest method.

s) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

Group as a lessee

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

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

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

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

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

s) Leases (continued)

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

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

Short term leases and leases of low-value assets

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

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

s) Leases (continued)

Group as lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

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

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease (see l) (iii) and (xi)). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

t) Property and equipment

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

Historical cost includes its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

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

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

	2022	**2021**
Buildings	10 to 40 years	10 to 40 years
Office furniture	5 years	5 years
Computers	4 to 6 years	4 to 6 years
Motor vehicles	5 years	5 years
Equipment and other assets	2 to 10 years	2 to 10 years

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

t) Property and equipment (continued)

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

When an item of property is revalued, the carrying value of that asset is adjusted to the revalued amount so that the accumulated depreciation is eliminated against the gross carrying amount of the asset.

After initial recognition of property:

- if an asset's carrying amount is increased as a result of revaluation, the increase is recognized in Other comprehensive income and accumulated in equity under the revaluation reserve caption
- if the carrying amount is decreased as a result of revaluation, the decrease is recognized in Profit or loss
- if an asset's carrying amount is increased as a result of revaluation, the increase is recognized in Profit or loss to the extent that it reverses a revaluation decrease of the same property previously recognized in Profit or loss
- if the carrying amount is decreased as a result of revaluation, the decrease is recognized in Other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

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

When the use of property changes from owner-occupied to rented, the property is reclassified to investment property.

When assets are sold or retired, their cost and accumulated depreciation are eliminated and any gain or loss resulting from their disposal is included in the income statement.

u) Intangible assets

Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably.

Subsequently, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their estimated useful lives. The estimated useful lives are as follows:

	2022	**2021**
Licence fees	7 years	7 years
Computer software	7 years	7 years

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

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

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

u) Intangible assets (continued)

Goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or the group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then pro-rata to the other assets of the unit on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Upon the legal merger of the Bank's former subsidiary, Međimurska banka, goodwill formerly arising on acquisition was transferred into goodwill recognised in the Bank's separate statement of financial position. Goodwill on acquisition of subsidiaries and purchased goodwill is included in intangible assets. Goodwill on acquisition of associates is included within investments in associates.

v) Investment property

Investment property is property held by the Group to earn rentals or for capital appreciation or for both, but not for sale in the ordinary course of business or for administrative purposes.

Investment property is measured at its fair value.

Investment property is derecognised when either it has been disposed of or permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognised in the income statement in the year of retirement or disposal.

w) Non-current assets and disposal groups classified as held for sale

The Group classifies a non-current asset as held for sale (or disposal groups comprising assets and liabilities) assets that are expected to be recovered primarily through sale rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and the sale should be expected to be completed within one year from the date of classification.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, the assets (or disposal group of assets and liabilities) are measured at the lower of their carrying amount and fair value less cost to sell.

A non-current asset classified as held for sale is no longer depreciated. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in income statement. Gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group first is allocated to goodwill, and then to the remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies.

At reclassification back, on change of intent or if the conditions required by IFRS 5 cease to be applicable, the Group does not restate comparative information in the balance sheet. Upon reclassification the valuation is adjusted in accordance with relevant standards, as if the reclassification had not occurred.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

x) Foreclosed assets

Sometimes the Group recovers assets that were originally received as collateral for loan, after exercising contractual rights or undertaking specific legal action. When the assets are recognised on the balance sheet for the first time, it is recognised at its fair value. Any difference between its fair value and the carrying amount of the loan that triggered recovery of the asset is considered an impairment loss on loan. After initial recognition, the repossessed assets are measured according to the relevant accounting standard, depending on the scope for holding the property. Generally, Group measures repossessed assets according to IAS 2 Inventory, except in rare circumstances when the asset is put in use.

y) Impairment of non-financial assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortisation and are tested for impairment whenever there are indications that these may be impaired or at least annually. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that are not yet available for use are assessed at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of property and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level 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.

Other previously impaired non-financial assets, other than goodwill, 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. An impairment loss is reversed only to the extent that the asset's value does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

z) Provisions

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

Provisions for liabilities and charges are maintained at the level that the Group's management considers sufficient for absorption of losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with the contract.

Provisions are released only for expenditure for which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

Notes to the financial statements (continued)

4 Significant accounting policies (continued)

aa) Issued share capital

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

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

bb) Treasury shares

When any Group company purchases the Bank's equity share capital (treasury shares), the consideration paid is deducted from equity attributable to the Bank's equity holders and classified as treasury shares until the shares are cancelled, reissued or disposed of. When such shares are subsequently sold or reissued, any consideration received, net of transaction costs, is included in equity attributable to the Bank's equity holders.

cc) Retained earnings

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

dd) Off-balance-sheet commitments and contingent liabilities

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

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, being the premium received, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Financial guarantees are included within Other liabilities.

ee) Managed funds for and on behalf of third parties

The Group manages funds for and on behalf of corporate and retail customers, banks and other institutions. These amounts do not represent the Group's assets and are excluded from the statement of financial position. For the services rendered the Group charges a fee. For details please refer to Note 42 Managed funds for and on behalf of third parties.

Notes to the financial statements (continued)

5 Accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in the existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. Critical judgments relating to allowance for credit losses are particularly complex in the current uncertain environment. During 2022, the management monitored the geopolitical and economic situation caused by Russia-Ukraine conflict, as well as the developments with COVID-19 pandemic. Those events caused slowdown in economic activities and uncertainties to macroeconomic projections, which negatively affected the fair value of financial instruments, and future developments may affect the quality of loan portfolio and real estate market. Although the accounting estimates and assumptions were made using reasonable and achievable information as of 31 December 2022, they are subject to changes that are not possible to predict at the moment.

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

These disclosures supplement the commentary on fair values of financial assets and liabilities (Note 46 Fair values of financial assets and liabilities) and financial risk management (Note 47 Financial risk management policies).

a) Classification of financial assets

Business Model Assessment

The Bank determines its business models based on the objective under which its portfolios of financial assets are managed. Refer to Note 4 L(ii) for details on the Bank's business models. In determining its business models, the Bank considers the following:

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

Solely Payments of Principal and Interest Test

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

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

Notes to the financial statements (continued)

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

b) Impairment of financial assets

Significant Increase in Credit Risk

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

Measurement of Expected Credit Loss

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

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

The Group first assesses whether evidence of impairment exists individually for assets that are individually significant, corporate exposures with total balance exceeding HRK 3.8 million, (2021: corporate exposure with total balance exceeding HRK 3.8 million) and collectively for assets that are not individually significant (retail exposures and corporate exposures below threshold of HRK 3.8 million).

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

Forward-Looking Information

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

Notes to the financial statements (continued)

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

b) Impairment of financial assets

Forward-Looking Information (continued)

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

Expected Credit Losses

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

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

c) Classification of lease contracts

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

d) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Information about assumptions and estimation uncertainties regarding impairment of goodwill are explained in Note 27 Intangible assets.

e) Fair value of financial instruments

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

Notes to the financial statements (continued)

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

f) Taxation

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

g) Litigation and claims

The Group makes an individual assessment of all court cases. The assessment is made by the Legal Department of the Bank or its relevant subsidiaries and in certain cases external lawyers are engaged. As stated in Note 38 Provisions the Group and the Bank provided HRK 440 million (2021: HRK 395 million) and HRK 402 million (2021: HRK 375 million) respectively for principal and interest in respect of liabilities for court cases, which the management estimates as sufficient. The above amounts represent the Group's best estimate of loss in respect of legal cases, although the actual outcome of court cases initiated against the Group can be significantly different. It is not practicable for management to estimate the financial impact of changes to the assumptions based on which management assesses the need for provisions.

h) Fair value of property and equipment and investment property

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

i) Foreclosed assets

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

j) Determination of control over investees

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

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

Notes to the financial statements (continued)

6 Net interest income

a) Interest income – analysis by source

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Retail	1,714	1,817	1,310	1,403
Corporate	684	662	436	423
Public sector and other institutions	244	277	212	245
Banks	90	(15)	63	10
	2,732	**2,741**	**2,021**	**2,081**

b) Interest income– analysis by financial assets category

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Loans and advances to customers	2,526	2,613	1,897	1,982
Loans and advances to banks	118	23	72	10
Investment securities at FVOCI	28	50	14	40
Investment securities at amortized cost	28	20	28	20
Total interest income calculated using the effective interest rate	**2,700**	**2,706**	**2,011**	**2,052**

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Finance lease	41	38	-	-
Financial assets initially designated at fair value through profit or loss	18	4	18	-
Financial assets held for trading	1	31	-	29
Derivatives - hedge accounting	(28)	(38)	(8)	-
Total other interest income	**32**	**35**	**10**	**29**

Interest income includes collected interest income from credit impaired loans of the Group of HRK 121 million (2021 impaired: HRK 118 million) and of the Bank of HRK 95 million (2021 impaired: HRK 73 million).

Notes to the financial statements (continued)

6 Net interest income (continued)

c) Interest expense – analysis by recipient

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Banks	117	112	73	73
Retail	50	64	32	30
Corporate	18	11	13	11
Public sector and other institutions	12	12	5	2
	197	**199**	**123**	**116**

d) Interest expense – analysis by product

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Interest-bearing borrowings and other financial liabilities	74	67	38	30
Current accounts and deposits from retail customers	51	64	32	30
Current accounts and deposits from banks	45	48	36	43
Current accounts and deposits from corporate customers and public sector	18	13	12	6
Interest expense on lease liability	6	7	5	7
Derivative assets held for hedge accounting	3	-	-	-
	197	**199**	**123**	**116**

Notes to the financial statements (continued)

7 Net fee and commission income

a) Fee and commission income

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Credit cards	901	796	297	237
Payment transactions	585	540	474	432
Customer services	204	219	112	95
Customer loans	74	82	24	32
Investment management, brokerage and consultancy	49	54	45	50
Guarantees	55	51	35	34
Other	188	121	139	118
	2,056	**1,863**	**1,126**	**998**

b) Fee and commission expense

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Credit cards	351	293	238	194
Payment transactions	51	47	41	39
Bank charges	23	16	18	11
Other	30	25	14	10
	455	**381**	**311**	**254**

8 Dividend income

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Dividends from subsidiaries	-	-	333	111
Dividends from associates	-	-	11	10
Dividends from other equity securities	2	1	1	1
	2	**1**	**345**	**122**

Notes to the financial statements (continued)

9 Net trading income and net gains on translation of monetary assets and liabilities

(in HRK million)

	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Foreign exchange spot trading	308	268	270	242
Net trading income from forward foreign exchange contracts and swaps	102	58	101	63
Net gains from securities initially designated at fair value through profit or loss	2	5	1	2
Net losses from translation of monetary assets and liabilities denominated in foreign currency	(73)	(44)	(69)	(43)
Net losses on financial assets held for trading	(84)	(27)	(84)	(27)
	255	**260**	**219**	**237**

10 Fair value adjustments in hedge accounting

(in HRK million)

	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Net effect on derivatives used as hedging instruments	718	121	293	3
Net effect on hedged items	(717)	(120)	(291)	(3)
	1	**1**	**2**	**-**

Notes to the financial statements (continued)

11 Other operating income

(in HRK million)

	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Rental income from investment property and assets under operating lease	33	38	1	1
Gain on disposal of property and equipment, intangible assets, investment property, non-current assets held for sale and foreclosed assets	12	30	2	6
Net value adjustments from valuation of investment property	(1)	(12)	(1)	(6)
Net loss on derecognition of financial assets not measured through profit or loss	(1)	(2)	(1)	(2)
Net value adjustments from valuation of tangible assets (IAS 16)	-	1	-	1
Net value adjustments from valuation of non-current assets held for sale	-	(1)	-	-
Net value adjustments from valuation of foreclosed assets	-	(1)	-	(1)
Other income	39	39	40	36
	82	**92**	**41**	**35**

Other income includes income from refunded expenses, income from collection services provided to subsidiaries and income from partner ATMs.

Notes to the financial statements (continued)

12 Personnel expenses

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Net salaries	576	565	363	364
Other personnel expenses	179	136	117	86
Contributions for pension insurance	151	149	101	100
Contributions for health insurance	110	109	80	79
Taxes and surtaxes	90	89	57	55
	1,106	**1,048**	**718**	**684**

During the year the average number of employees within the Group based on full-time employment equivalence was 4,664 (2021: 4,879) of which the Bank accounted for 3,105 (2021: 3,331) employees.

13 Other operating expenses

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Materials and services	572	537	445	399
Processing expenses	188	171	69	64
Deposit insurance premium and ex-ante resolution contributions	113	62	77	31
Indirect and other taxes	32	37	31	32
Supervision expenses	26	27	15	15
Other expenses	229	174	88	51
	1,160	**1,008**	**725**	**592**

Other operating expenses include fees payable to the auditor of HRK 9 million for the Group (2021: HRK 9 million) and HRK 7 million for the Bank (2021: HRK 6 million).

Notes to the financial statements (continued)

14 Impairment losses

a) Net impairment losses on loans and advances to customers

(in HRK million)

	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Impairment losses/(release) of provisions) on loans and advances to customers at amortised cost	110	52	10	(10)
	110	**52**	**10**	**(10)**

b) Other impairment losses and provisions

(in HRK million)

	Notes	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Provisions for court cases	38	110	216	86	211
Provisions for other items	38	50	7	31	4
Provisions for loans and advances to banks		1	-	-	-
Provision for retirement benefit obligations	38	-	1	-	-
Movement in impairment losses on other assets	31	(1)	1	-	-
Release of provisions for cash and current accounts with banks	18	(2)	-	(2)	-
(Release of provisions)/provisions on balances with CNB		(9)	4	(9)	4
Movement in impairment loss on financial assets FVOCI	47	(9)	4	(9)	4
(Release of provisions)/ provisions for off-balance-sheet items	38	(18)	43	(33)	42
Movement in impairment loss on investment securities at amortized cost	47	(18)	36	(17)	36
Modification gain		(29)	-	(29)	-
		75	**312**	**18**	**301**

Notes to the financial statements (continued)

15 Depreciation, amortisation and impairment of goodwill

(in HRK million)

		GROUP		BANK	
	Notes	2022	2021	2022	2021
Depreciation and impairment of property and equipment	28	184	182	135	133
Amortisation of intangible assets	27	67	72	46	52
Depreciation and impairment of investment property	29	1	-	-	-
		252	**254**	**181**	**185**

16 Income tax expense

a) Income tax expense recognised in the income statement

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Current income tax charge	347	316	274	243
Net deferred tax charge	(28)	(4)	(32)	(7)
Income tax expense recognised in the income statement	**319**	**312**	**242**	**236**

b) Reconciliation of income tax expense

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

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Accounting profit before tax	**1,783**	**1,715**	**1,668**	**1,350**
Tax calculated at rate of 18%	321	309	300	243
Effect of different tax rates in Bosnia and Herzegovina	(10)	(12)	-	-
Effect of different tax rates in Slovenia	1	1	-	-
Tax effects of:				
Non-deductible expenses	33	13	29	10
Expenses included directly in income tax expense	10	9	8	12
Tax exempt income	(8)	(4)	(62)	(22)
Total income tax expense	**347**	**316**	**275**	**243**
Effective income tax rate	**19.5%**	**18.4%**	**16.5%**	**18.0%**

Notes to the financial statements (continued)

16 Income tax expense (continued)

c) Deferred tax assets

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Timing differences				
On impairment of loans	34	36	-	-
On unrealised losses on financial assets at fair value through profit or loss	16	6	13	3
On unrealised losses on financial assets at fair value through other comprehensive income	27	-	23	-
On deferred fees	9	11	8	10
On impairment of real estate	6	8	5	5
On other items	95	75	85	65
Deferred tax assets	**187**	**136**	**134**	**83**

Other items include mainly accruals and litigations provisions.

d) Deferred tax liabilities

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Timing differences				
On unrealised gains on tangible assets	68	71	29	31
On unrealised gains on financial assets at FVOCI	10	10	-	-
On credit losses	1	1	-	-
Deferred tax liabilities	**79**	**82**	**29**	**31**

Notes to the financial statements (continued)

16 Income tax expense (continued)

e) Movement in deferred tax assets

(in HRK million)

Group	**Total**	Deferred fees	Impairment of real estate	Unrealised losses on financial assets at fair value through profit or loss	Impairment on financial assets at FVOCI	Other items	Impairment of loans
Balance as at 1 January 2022	**136**	**11**	**8**	**6**	**-**	**75**	**36**
Increase credited to income statement	***70***	*5*	*-*	*15*	*-*	*50*	*-*
Utilisation charged to income statement	***(46)***	*(7)*	*(2)*	*(5)*	*-*	*(30)*	*(2)*
Net amount charged to income statement	**24**	(2)	(2)	10	-	20	(2)
Increase debited to comprehensive income	**27**	-	-	-	*27*	-	-
Balance as at 31 December 2022	**187**	**9**	**6**	**16**	**27**	**95**	**34**
Balance as at 1 January 2021	**132**	**13**	**16**	**16**	**-**	**50**	**37**
Increase credited to income statement	***62***	*6*	*1*	*5*	*-*	*50*	*-*
Utilisation charged to income statement	***(58)***	*(8)*	*(9)*	*(15)*	*-*	*(25)*	*(1)*
Net amount charged to income statement	**4**	(2)	(8)	(10)	-	25	(1)
Balance as at 31 December 2021	**136**	**11**	**8**	**6**	**-**	**75**	**36**

Notes to the financial statements (continued)

16 Income tax expense (continued)

e) Movement in deferred tax assets (continued)

(in HRK million)

Bank	**Total**	Deferred fees	Impairment of real estate	Unrealised losses on financial assets at fair value through profit or loss	Impairment on financial assets at FVOCI	Other items
Balance as at 1 January 2022	**83**	**10**	**5**	**3**	**-**	**65**
Increase credited to income statement	**69**	*5*	-	*15*	-	*49*
Utilisation charged to income statement	**(41)**	*(7)*	-	*(5)*	-	*(29)*
Net amount charged to income statement	**28**	(2)	-	10	-	20
Increase debited to comprehensive income	**23**	-	-	-	23	-
Balance as at 31 December 2022	**134**	**8**	**5**	**13**	**23**	**85**
Balance as at 1 January 2021	**76**	**12**	**12**	**13**	**-**	**39**
Increase credited to income statement	**60**	*6*	-	*5*	-	*49*
Utilisation charged to income statement	**(53)**	*(8)*	*(7)*	*(15)*	-	*(23)*
Net amount charged to income statement	**7**	(2)	(7)	(10)	-	26
Balance as at 31 December 2021	**83**	**10**	**5**	**3**	**-**	**65**

Notes to the financial statements (continued)

16 Income tax expense (continued)

f) Movement in deferred tax liabilities

(in HRK million)

Group	**Total**	Unrealised gains on financial assets at FVOCI	Unrealised gains on tangible assets	Credit losses
Balance as at 1 January 2022	**82**	**10**	**71**	**1**
Increase credited to PL	**4**	-	4	-
Transfer out of DTL	**(3)**	-	(3)	-
Other decreases	**(4)**	-	(4)	-
Balance as at 31 December 2022	**79**	**10**	**68**	**1**
Balance as at 1 January 2021	**97**	**15**	**74**	**8**
Increase credited to comprehensive income	**(9)**	(5)	(4)	-
Transfer out of DTL	**1**	-	1	-
Tax on provisions for credit losses	**(7)**	-	-	(7)
Balance as at 31 December 2021	**82**	**10**	**71**	**1**

Bank	**Total**	Unrealised gains on financial assets at FVOCI	Unrealised gains on tangible assets
Balance as at 1 January 2022	**31**	**-**	**31**
Increase credited to PL	**4**	-	4
Transfer out of DTL	**(2)**	-	(2)
Other decreases	**(4)**	-	(4)
Balance as at 31 December 2022	**29**	**-**	**29**
Balance as at 1 January 2021	**37**	**4**	**33**
Increase credited to comprehensive income	**(7)**	(4)	(3)
Transfer out of DTL	**1**	-	1
Balance as at 31 December 2021	**31**	**-**	**31**

Notes to the financial statements (continued)

17 Financial assets and financial liabilities

Classification of financial assets and financial liabilities

(in HRK million)

Group	Mandatorily at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
As at 31 December 2022						
Cash and current accounts with banks	-	-	-	-	46,444	**46,444**
Balances with the Croatian National Bank	-	-	-	-	2,976	**2,976**
Financial assets held for trading	545	-	-	-	-	**545**
Derivative financial assets	652	-	-	-	-	**652**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(493)	-	-	-	-	**(493)**
Loans and advances to banks	-	-	-	-	7,851	**7,851**
Loans and advances to customers	-	-	-	-	83,919	**83,919**
Investment securities	36	36	10,186	82	2,014	**12,354**
Total financial assets	**740**	**36**	**10,186**	**82**	**143,204**	**154,248**
Current accounts and deposits from banks	-	-	-	-	2,427	**2,427**
Current accounts and deposits from customers	-	-	-	-	126,702	**126,702**
Derivative financial liabilities	19	-	-	-	-	**19**
Interest-bearing borrowings and other financial liabilities	-	-	-	-	4,894	**4,894**
Senior non-preferred debt	-	-	-	-	1,019	**1,019**
Total financial liabilities	**19**	-	-	-	**135,042**	**135,061**

Notes to the financial statements (continued)

17 Financial assets and financial liabilities (continued)

Classification of financial assets and financial liabilities (continued)

(in HRK million)

Bank	Mandatorily at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
As at 31 December 2022						
Cash and current accounts with banks	-	-	-	-	38,647	**38,647**
Balances with the Croatian National Bank	-	-	-	-	2,976	**2,976**
Financial assets held for trading	545	-	-	-	-	**545**
Derivative financial assets	297	-	-	-	-	**297**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(295)	-	-	-	-	**(295)**
Loans and advances to banks	-	-	-	-	5,571	**5,571**
Loans and advances to customers	-	-	-	-	57,979	**57,979**
Investment securities	27	25	7,924	3	2,014	**9,993**
Total financial assets	**574**	**25**	**7,924**	**3**	**107,187**	**115,713**
Current accounts and deposits from banks	-	-	-	-	1,686	**1,686**
Current accounts and deposits from customers	-	-	-	-	95,528	**95,528**
Derivative financial liabilities	8	-	-	-	-	**8**
Interest-bearing borrowings and other financial liabilities	-	-	-	-	3,273	**3,273**
Senior non-preferred debt	-	-	-	-	1,019	**1,019**
Total financial liabilities	**8**	**-**	**-**	**-**	**101,506**	**101,514**

Notes to the financial statements (continued)

17 Financial assets and financial liabilities (continued)

Classification of financial assets and financial liabilities (continued)

(in HRK million)

Group	Mandatorily at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
As at 31 December 2021						
Cash and current accounts with banks	-	-	-	-	35,885	**35,885**
Balances with the Croatian National Bank	-	-	-	-	4,533	**4,533**
Financial assets held for trading	1,135	-	-	-	-	**1,135**
Derivative financial assets	43	-	-	-	-	**43**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	31	-	-	-	-	**31**
Loans and advances to banks	-	-	-	-	6,230	**6,230**
Loans and advances to customers	-	-	-	-	78,679	**78,679**
Investment securities	22	67	9,519	160	1,982	**11,750**
Total financial assets	**1,231**	**67**	**9,519**	**160**	**127,309**	**138,286**
Current accounts and deposits from banks	-	-	-	-	1,295	**1,295**
Current accounts and deposits from customers	-	-	-	-	109,980	**109,980**
Derivative financial liabilities	98	-	-	-	-	**98**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4	-	-	-	-	**4**
Interest-bearing borrowings and other financial liabilities	-	-	-	-	6,972	**6,972**
Senior non-preferred debt					827	**827**
Total financial liabilities	**102**	**-**	**-**	**-**	**119,074**	**119,176**

Notes to the financial statements (continued)

17 Financial assets and financial liabilities (continued)

Classification of financial assets and financial liabilities (continued)

(in HRK million)

Bank	Mandatorily at FVTPL	Designated at FVTPL	FVOCI - debt instruments	FVOCI - equity instruments	Amortised cost	Total carrying amount
As at 31 December 2021						
Cash and current accounts with banks	-	-	-	-	27,403	**27,403**
Balances with the Croatian National Bank	-	-	-	-	4,533	**4,533**
Financial assets held for trading	1,135	-	-	-	-	**1,135**
Derivative financial assets	37	-	-	-	-	**37**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(3)	-	-	-	-	**(3)**
Loans and advances to banks	-	-	-	-	4,659	**4,659**
Loans and advances to customers	-	-	-	-	53,835	**53,835**
Investment securities	17	46	7,429	54	1,958	**9,504**
Total financial assets	**1,186**	**46**	**7,429**	**54**	**92,388**	**101,103**
Current accounts and deposits from banks	-	-	-	-	1,911	**1,911**
Current accounts and deposits from customers	-	-	-	-	81,112	**81,112**
Derivative financial liabilities	1	-	-	-	-	**1**
Interest-bearing borrowings and other financial liabilities	-	-	-	-	3,597	**3,597**
Senior non-preferred debt	-	-	-	-	827	**827**
Total financial liabilities	**1**	**-**	**-**	**-**	**87,447**	**87,448**

Notes to the financial statements (continued)

18 Cash and current accounts with banks

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Current accounts with the CNB	32,268	23,735	32,268	23,734
Cash in hand	7,741	4,732	6,023	2,592
Current accounts with foreign banks	6,422	7,406	354	1,075
Current accounts with domestic banks	13	14	2	4
	46,444	**35,887**	**38,647**	**27,405**
Impairment loss allowance	-	(2)	-	(2)
	46,444	**35,885**	**38,647**	**27,403**

19 Balances with the Croatian National Bank

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Obligatory reserve	-	4,533	-	4,533
Other deposits with the CNB	2,976	-	2,976	-
	2,976	**4,533**	**2,976**	**4,533**

Until December 2022 the Croatian National Bank determined the requirement for banks to calculate obligatory reserve which is required to be deposited with the CNB and has to be maintained in the form of liquid assets. With the introduction of the Euro as the official currency of Republic of Croatia as of 1 January 2023, the Decision on Mandatory Reserves is suspended with transitional period for 14 December 2022 to 31 December 2022. During transitional period credit institutions were obligated to maintain minimum reserve according to Regulation (EU) 2021/378 of the ECB of 22 January 2021 on the application of provisions on minimum reserves.

Institutions calculate the minimum reserve based on statistical data on deposit liabilities and issued debt securities that are reported in accordance with Regulation (EU) 2021/379 of the ECB of 22 January 2021 on the balance sheet items of credit institutions and of the monetary financial institutions sector. The applicable reserve rates are 0% (deposits with maturity above 2 years) and 1% (deposits with maturity up to 2 years). Determent minimum reserve is maintained for a period set by the ECB on the target settlement account with the CNB.

The obligatory reserve requirement as on 31 December 2021 was 9% of HRK and foreign currency deposits, borrowings, debt securities issued and other financial liabilities. As on 31 December 2021, the required rate for the HRK denominated part of the obligatory reserve to be deposited with the CNB amounted to 70%, while the remaining 30% had to be maintained in the form of other liquid receivables. This includes the part of foreign currency obligatory reserve required to be held in HRK. In 2021, 100% of the foreign currency part of the obligatory reserve was held in the form of other liquid receivables, with minimum 2% on the EUR settlement account with the Croatian National Bank, 75% of the foreign currency obligatory reserve was required to be held in HRK, and this was added to the HRK portion of the obligatory reserve. The obligatory reserve did not earn any interest in 2021.

Other deposits with the CNB in the amount of HRK 2,976 million relate to collateral placed with the CNB for the euro banknotes used in the process of sub frontloading under which banks supplied companies with banknotes and coins before the date of the introduction of the euro.

Notes to the financial statements (continued)

20 Investment securities

(in HRK million)

	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Investment securities measured at FVOCI – debt instruments	10,186	9,519	7,924	7,429
Investment securities measured at amortised cost	2,014	1,982	2,014	1,958
Investment securities designated as at FVOCI – equity investments	82	160	3	54
Investment securities mandatorily measured at FVTPL – debt securities	36	67	25	46
Investment securities mandatorily measured at FVTPL – equity securities	36	22	27	17
	12,354	**11,750**	**9,993**	**9,504**

a) Investment securities mandatorily measured at FVTPL

(in HRK million)

	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Equity securities	36	22	27	17
	36	**22**	**27**	**17**

b) Investment securities measured at amortised cost

(in HRK million)

	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Domestic government bonds	1,026	1,024	1,026	1,024
Corporate bonds	988	934	988	934
Foreign government bonds	-	24	-	-
	2,014	**1,982**	**2,014**	**1,958**

Notes to the financial statements (continued)

20 Investment securities (continued)

c) Investment securities measured at FVOCI – debt instruments

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Domestic government treasury bills	6,028	5,376	5,972	5,376
Domestic government bonds	1,952	2,175	1,952	2,053
Foreign government bonds	1,600	1,101	-	-
Other financial institutions bonds	369	-	-	-
Foreign government treasury bills	187	811	-	-
Bank bonds	50	56	-	-
	10,186	**9,519**	**7,924**	**7,429**

d) Investment securities measured at FVOCI – equity investments

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Unlisted securities	80	158	1	53
Listed securities	2	2	2	1
	82	**160**	**3**	**54**

The Group’s policy is to designate equity instruments as FVOCI when those instruments are held for purposes other than to generate investment returns.

In order to comply with the requirement of the National Bank Resolution Fund, Slovenian government bonds in the amount of the HRK 75 million (2021: HRK 83 million) are pledged.

e) Investment securities mandatorily measured at FVTPL - debt instruments

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Corporate bonds	36	67	25	46
	36	**67**	**25**	**46**

Notes to the financial statements (continued)

21 Financial assets held for trading

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Domestic government bonds	542	1,126	542	1,126
Accrued interest	3	9	3	9
	545	**1,135**	**545**	**1,135**
Listed securities	*545*	*1,135*	*545*	*1,135*
	545	**1,135**	**545**	**1,135**

22 Derivative financial assets

a) Derivative financial assets classified as held for trading

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Fair value:				
Forward foreign exchange contracts and swaps	14	36	2	34
	14	**36**	**2**	**34**
Notional amount:				
Forward foreign exchange contracts and swaps	472	1,270	258	1,152
Interest rate contracts	21	24	-	-
	493	**1,294**	**258**	**1,152**

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

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

Notes to the financial statements (continued)

22 Derivative financial assets (continued)

b) Derivative financial assets held for hedge accounting

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Fair value:				
Interest rate swaps - macro hedge	638	7	295	3
	638	**7**	**295**	**3**
Notional amount:				
Interest rate swaps - micro hedge	1,477	10	-	-
Interest rate swaps - macro hedge	4,847	1,842	3,391	1,503
	6,324	**1,852**	**3,391**	**1,503**

Hedge accounting

As of December 2021, the Bank introduced hedge accounting to manage the interest rate risk in the banking book. Until then, Intesa Sanpaolo Bank d.d. Slovenia was the only Group member applying the hedge accounting. By using derivative financial instruments to hedge exposures to changes in interest rates, Bank also exposes itself to credit risk of the derivative counterparty, which is not offset by the hedged item. Since the IRS falls into derivative class subject to clearing obligation, transactions are cleared by a Central counterparty (CCP).

To reduce the Bank's exposure to changes in the fair values, Bank hedges the positions with fixed interest rate. Since the swap market does not exist for a local HRK currency, only the positions denominated in euro currency are being hedged. Also, only the fair value macro hedge (packages of loans) is currently envisaged to be performed for the Bank. Due to the highest capacity, lower credit risk and prepayment volatility, Bank decided to start with macro hedging the retail mortgage loan portfolio in 2021.

On a Group level, along with macro hedges of retail mortgages, interest rate swaps are also used to hedge its exposure to changes in the fair values of fixed-rate bonds and fixed-rate loans and advances denominated both in EUR and USD currency, on a micro hedge level, by Intesa Sanpaolo Bank d.d. Slovenia. Before fair value hedge accounting is applied by the Group, the Group determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship and evaluates whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks.

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

Notes to the financial statements (continued)

22 Derivative financial assets (continued)

b) Derivative financial assets held for hedge accounting

Impact of IBOR reform

The Group evaluated the extent to which its fair value hedging relationships are subject to uncertainty driven by IBOR reform at the reporting date. Group's hedging instruments continue to be indexed to IBOR benchmark rates, which are mainly Euribor and US Dollar LIBOR. Theses IBOR benchmark rates are quoted each day and IBOR cash flows are exchanged with its counterparties as usual.

Both for the hedges indexed to Euribor and USD Libor, the Group does not consider there to be material uncertainties related to the timing or amount of cash flows arising from IBOR reform. This is because the reform of Euribor is complete and market participants are allowed to continue to use Euribor after 1 January 2020 for both existing and new contracts and the majority of cashflows related to hedges indexed to USD Libor will mature before the cessation of USD Libor index.

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

(in HRK million)

	GROUP		**BANK**	
	2022	2021	2022	2021
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(493)	31	(295)	(3)
	(493)	**31**	**(295)**	**(3)**

Notes to the financial statements (continued)

23 Derivative financial liabilities

a) Derivative financial liabilities classified as held for trading

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Fair value:				
Forward foreign exchange contracts and swaps	19	3	8	1
	19	**3**	**8**	**1**
Notional amount:				
Forward foreign exchange contracts and swaps	728	934	514	816
	728	**934**	**514**	**816**

b) Derivative financial liabilities held for hedge accounting

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Fair value:				
Interest rate swaps - micro hedge	-	61	-	-
Interest rate swaps - macro hedge	-	34	-	-
	-	**95**	**-**	**-**
Notional amount:				
Interest rate swaps - micro hedge	-	2,087	-	-
Interest rate swaps - macro hedge	-	925	-	-
	-	**3,012**	-	-

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

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	4	-	-
	-	**4**	**-**	**-**

Notes to the financial statements (continued)

24 Loans and advances to banks

a) Analysis by type of product

(in HRK million)

	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Term deposits and placements	6,047	4,916	4,852	4,342
Loans	803	360	723	321
Obligatory reserve with CBBH	783	757	-	-
Obligatory reserve with BoS	224	202	-	-
	7,857	**6,235**	**5,575**	**4,663**
Impairment loss allowance	(6)	(5)	(4)	(4)
	7,851	**6,230**	**5,571**	**4,659**

Term deposits mainly relate to short-term deposits with local and foreign banks bearing an average annual interest rate in the range of (-1,0%) and 5,09% (2021: in the range of (-2,0%) and 0,6%).

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

The obligatory reserve with the Bank of Slovenia ("BoS") represents amounts required to be deposited with Slovenia's central bank. Mandatory reserve is maintained, relative to the volume and structure of customer deposits. The current requirement regarding the calculation of the amount to be held as mandatory reserve is 1% of time deposits and issued debt securities with maturities up to two years.

b) Movement in impairment allowance

(in HRK million)

	Note	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Balance at 1 January		**5**	**5**	**4**	**4**
Net remeasurement of loss allowance	14b	1	-	-	-
Balance at 31 December		**6**	**5**	**4**	**4**

Notes to the financial statements (continued)

24 Loans and advances to banks (continued)

c) Geographical analysis

(in HRK million)

	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Germany	1,437	1,091	1,437	1,091
Italy	1,425	942	155	266
Bosnia and Herzegovina	935	1,100	152	230
France	890	208	890	208
Switzerland	802	341	802	341
Republic of Croatia	704	78	864	302
Great Britain	692	-	692	-
Slovenia	313	243	-	-
Norway	227	-	227	-
Netherlands	128	-	128	-
Austria	63	936	-	936
Belgium	2	1,252	2	1,252
Other countries	239	44	226	37
	7,857	**6,235**	**5,575**	**4,663**
Impairment loss allowance	(6)	(5)	(4)	(4)
	7,851	**6,230**	**5,571**	**4,659**

As at 31 December 2022 loans and advances to banks included reverse repurchase agreements in the amount of HRK 394 million for the Group and for the Bank (2021: HRK 32 million for the Group and for the Bank). Such agreements are secured with government bonds and treasury bills. For details on sale and repurchase agreements please refer to Note 47 Financial risk management policies.

25 Loans and advances to customers

a) Analysis by type of customer

(in HRK million)

Loans and advances to customers at amortized cost	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Retail customers	44,067	41,932	31,133	29,295
Corporate customers	30,836	28,232	18,165	16,614
Public sector and other institutions	12,095	11,553	10,831	10,087
	86,998	**81,717**	**60,129**	**55,996**
Impairment allowance	(3,005)	(2,949)	(2,112)	(2,117)
Modification	1	1	-	-
Loans and advances to customers net of impairment allowance	**83,994**	**78,769**	**58,017**	**53,879**
Deferred fees recognised as an adjustment to the effective yield	(75)	(90)	(38)	(44)
	83,919	**78,679**	**57,979**	**53,835**

Notes to the financial statements (continued)

25 Loans and advances to customers (continued)

b) Analysis by sector

(in HRK million)

	GROUP		**BANK**	
	2022	2021	2022	2021
Individuals	44,067	41,932	31,133	29,295
Public administration and defence; compulsory social security	7,043	6,069	5,671	4,602
Construction	6,105	6,391	5,645	5,966
Manufacturing	6,051	5,913	2,797	3,187
Electricity, gas, steam and air conditioning supply	5,916	3,659	4,342	2,335
Wholesale and retail trade; repair of motor vehicles and motorcycles	5,408	4,854	2,484	2,103
Transporting and storage	3,258	3,174	1,153	1,044
Accommodation and food service activities	2,032	2,539	1,750	2,210
Real estate activities	1,503	1,499	1,075	1,236
Financial and insurance activities	1,014	946	1,186	1,296
Information and communication	1,006	830	422	207
Agriculture, forestry and fishing	811	866	654	735
Water supply; sewerage; waste management and remediation activities	665	233	506	140
Professional, scientific and technical activities	660	1,011	379	584
Human health and social work activities	381	365	242	271
Arts, entertainment and recreation	299	286	266	246
Administrative and support service activities	271	478	162	143
Mining and quarrying	189	190	8	93
Education	173	230	138	191
Other services activities	145	224	115	84
Activities of extraterritorial organisations and bodies	1	28	1	28
	86,998	**81,717**	**60,129**	**55,996**

Loans and advances to customers also include finance lease receivables. For a more detailed analysis of finance lease receivables please refer to Note 43 *Leases*.

Notes to the financial statements (continued)

25 Loans and advances to customers (continued)

c) Collateral repossessed

During the year, the Group foreclosed on assets previously charged to them as collateral, and thereby recognised foreclosed assets with a carrying value of HRK nil and nil for the Bank (2021: HRK 19 million Group and HRK nil for the Bank). The repossessed collateral, which the Group is in the process of selling, is disclosed as foreclosed assets within Note 31 Other assets. In general, the Group does not occupy repossessed properties for business use.

d) Sale of receivables

In 2022, the Group sold HRK 10 million gross receivable (HRK nil net receivable) to a third party for HRK 4 million and the Bank sold HRK 8 million gross receivables (HRK nil net receivable) for HRK 3 million. In 2021, the Group sold HRK 838 million gross receivable (HRK 205 million net receivable) to a third party for HRK 416 million and the Bank sold HRK 631 million gross receivables (HRK 144 million net receivable) for HRK 335 million.

26 Investments in subsidiaries and associates

(in HRK million)

	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Consolidated subsidiaries	-	-	1,819	1,934
Associates accounted for under the equity method by the Group and at cost by the Bank	65	66	28	28
	65	**66**	**1,847**	**1,962**
Movements				
Balance at 1 January	**66**	**65**	**1,962**	**1,962**
Share of profits from associates	10	11	-	-
Merger of PBZ Stambena Štedionica d.d.	-	-	(115)	-
Receipt of dividend	(11)	(10)	-	-
Balance at 31 December	**65**	**66**	**1,847**	**1,962**

Notes to the financial statements (continued)

26 Investments in subsidiaries and associates (continued)

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

	Residence	Identification number	ID number	Nature of business	2022 holding %	2021 holding %
CONSOLIDATED SUBSIDIARIES						
PBZ Card d.o.o.	Croatia, Zagreb, Radnička cesta 44	80258649	28495895537	card services	100	100
PBZ Leasing d.o.o.	Croatia, Zagreb, Radnička cesta 44	3796540	57270798205	leasing	100	100
PBZ Stambena Štedionica d.d.*	Croatia, Zagreb, Radnička cesta 44	1702785	28857005625	housing savings bank	-	100
Intesa Sanpaolo Banka d.d. Bosnia and Herzegovina	Bosnia and Herzegovina, Sarajevo, Obala Kulina Bana 9a	6502000911	49307371766	credit institution	99	99
Intesa Sanpaolo Bank d.d. Slovenia	Slovenia, Koper, Pristaniška ulica 14	5092221000	74655065389	credit institution	51	51
ASSOCIATES						
PBZ Croatia Osiguranje d.d.	Croatia, Zagreb, Radnička cesta 44	8046496	20455535575	pension management	50	50

*As disclosed later in this Note, as at 16 June 2022 PBZ Stambena Štedionica d.d. was legally merged into the Bank.

Notes to the financial statements (continued)

26 Investments in subsidiaries and associates (continued)

The Group considers that its 50% investment in PBZ Croatia Osiguranje d.d. represent investment in associates (31 December 2021: 50% investment in PBZ Croatia Osiguranje d.d.) as the Group does not have control over the company. Consequently, PBZ Croatia Osiguranje d.d. is accounted for using the equity method in the consolidated financial statements.

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

(in HRK million)

PBZ Croatia Osiguranje d.d.	2022	2021
Associates' statement of financial position		
Current assets	136	139
Non-current assets	1	1
Current liabilities	(6)	(6)
Non-current liabilities	(2)	(3)
Net assets of associate	**129**	**131**
Attributable to PBZ Group	**65**	**66**
Associates' income statements		
Revenue	71	71
Expenses	(51)	(50)
Profit	**20**	**21**
Attributable to PBZ Group	**10**	**11**

Involvement in unconsolidated structured entities

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

Notes to the financial statements (continued)

26 Investments in subsidiaries and associates (continued)

Merger of PBZ Stambena Štedionica d.d.

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

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

	(in HRK million)
	15 June 2022
Loans and advances to banks	752
Loans and advances to customers	779
Investment securities	119
Other assets	1
Property and equipment	2
Deferred tax assets	1
Total assets	**1,654**
Current accounts and deposits from customers	1,396
Interest-bearing borrowings	2
Other liabilities	7
Total liabilities	**1,405**
Net assets and liabilities	**249**
Less: carrying value of the investment in the subsidiary	115
Differences recorded directly in Bank's equity	**134**
Merger of subsidiary - increase in reserves of the Bank	
Other reserves	6
Fair value reserve	1
Retained earnings	127
	134

Notes to the financial statements (continued)

27 Intangible assets

(in HRK million)

Group	Goodwill	Software	Other intangible assets	Leasehold improvements	Assets acquired but not brought into use	**Total**
Acquisition cost						
Balance at 1 January 2021	**14**	**1,023**	**50**	**301**	**82**	**1,470**
Additions	-	-	-	-	129	**129**
Transfer into use	-	80	1	6	(87)	**-**
Disposals and eliminations	-	(8)	(7)	(30)	-	**(45)**
Reclassification to tangible assets	-	(3)	-	-	-	**(3)**
Translation differences in respect of foreign operations	-	(1)	-	-	-	**(1)**
Balance at 31 December 2021	**14**	**1,091**	**44**	**277**	**124**	**1,550**
Additions	-	-	-	-	136	**136**
Transfer into use	-	102	2	12	(116)	**-**
Disposals and eliminations	-	-	-	(23)	-	**(23)**
Balance at 31 December 2022	**14**	**1,193**	**46**	**266**	**144**	**1,663**

Notes to the financial statements (continued)

27 Intangible assets

(in HRK million)

Group	Goodwill	Software	Other intangible assets	Leasehold improvements	Assets acquired but not brought into use	Total
Accumulated amortisation						
Balance at 1 January 2021	**-**	**847**	**45**	**261**	**-**	**1,153**
Charge for the year	-	60	3	9	-	**72**
Disposals and eliminations	-	(7)	(7)	(30)	-	**(44)**
Reclassification to tangible assets	-	(1)	-	-	-	**(1)**
Balance at 31 December 2021	**-**	**899**	**41**	**240**	**-**	**1,180**
Charge for the year	-	56	2	9	-	**67**
Disposals and eliminations	-	-	-	(23)	-	**(23)**
Balance at 31 December 2022	**-**	**955**	**43**	**226**	**-**	**1,224**
Carrying value						
Balance at 31 December 2021	**14**	**192**	**3**	**37**	**124**	**370**
Balance at 31 December 2022	**14**	**238**	**3**	**40**	**144**	**439**

Goodwill represents goodwill arising from the acquisition of Međimurska banka in the amount of HRK 14 million (2021: HRK 14 million), recognised as a purchased goodwill following the merger of Međimurska banka d.d. into Privredna banka Zagreb as at 1 December 2012.

Notes to the financial statements (continued)

27 Intangible assets (continued)

(in HRK million)

Bank	Goodwill	Software	Other intangible assets	Leasehold improvements	Assets acquired but not brought into use	**Total**
Acquisition cost						
Balance at 1 January 2021	**14**	**749**	**2**	**255**	**42**	**1,062**
Additions	-	-	-	-	100	**100**
Transfer into use	-	47	-	4	(51)	**-**
Disposals	-	(4)	-	(29)	-	**(33)**
Reclassification to tangible assets	-	(3)	-	-	-	**(3)**
Balance at 31 December 2021	**14**	**789**	**2**	**230**	**91**	**1,126**
Merger of PBZ Stambena Štedionica d.d.	-	1	-	-	-	**1**
Additions	-	-	-	-	99	**99**
Transfer into use	-	85	-	6	(91)	**-**
Disposals	-	-	-	(23)	-	**(23)**
Balance at 31 December 2022	**14**	**875**	**2**	**213**	**99**	**1,203**

Notes to the financial statements (continued)

27 Intangible assets (continued)

(in HRK million)

Bank	Goodwill	Software	Other intangible assets	Leasehold improvements	Assets acquired but not brought into use	**Total**
Accumulated amortisation						
Balance at 1 January 2021	**-**	**623**	**2**	**231**	**-**	**856**
Charge for the year	-	45	-	7	-	**52**
Disposals	-	(4)	-	(29)	-	**(33)**
Reclassification to tangible assets	-	(1)	-	-	-	**(1)**
Balance at 31 December 2021	**-**	**663**	**2**	**209**	**-**	**874**
Merger of PBZ Stambena Štedionica d.d.	-	1	-	-	-	**1**
Charge for the year	-	39	-	7	-	**46**
Disposals	-	-	-	(23)	-	**(23)**
Balance at 31 December 2022	**-**	**703**	**2**	**193**	**-**	**898**
Carrying value						
Balance at 31 December 2021	**14**	**126**	**-**	**21**	**91**	**252**
Balance at 31 December 2022	**14**	**172**	**-**	**20**	**99**	**305**

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

The Group capitalised HRK 49 million (2021: HRK 23 million) and the Bank HRK 44 million (2021: HRK 18 million) of internal costs for software development.

Notes to the financial statements (continued)

28 Property and equipment

(in HRK million)

Group	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets acquired but not brought into use	**Total**
Acquisition cost						
Balance at 1 January 2021	**1,659**	**605**	**104**	**558**	**15**	**2,941**
Additions	-	-	-	-	227	**227**
Transfer into use	73	27	12	80	(192)	**-**
Disposals	(26)	(37)	(31)	(87)	-	**(181)**
Reclassified to non-current assets held for sale	(3)	-	-	-	-	**(3)**
Reclassified from non-current assets held for sale	1	-	-	-	-	**1**
Reclassified from tangible assets	-	3	-	-	-	**3**
Reclassified to foreclosed assets	(17)	-	-	-	-	**(17)**
Application of revaluation model: Fair value gain	(4)	-	-	-	-	**(4)**
Translation differences in respect of foreign operations	(1)	-	-	-	-	**(1)**
Balance at 31 December 2021	**1,682**	**598**	**85**	**551**	**50**	**2,966**
Additions	-	-	-	-	237	**237**
Transfer into use	107	41	49	47	(244)	**-**
Disposals	(94)	(21)	(7)	(82)	-	**(204)**
Reclassified to non-current assets held for sale	(13)	-	-	-	-	**(13)**
Reclassified to foreclosed assets	(24)	-	(22)	-	-	**(46)**
Translation differences in respect of foreign operations	1	1	-	-	-	**2**
Balance at 31 December 2022	**1,659**	**619**	**105**	**516**	**43**	**2,942**

Notes to the financial statements (continued)

28 Property and equipment

(in HRK million)

Group	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets acquired but not brought into use	**Total**
Accumulated depreciation						
Balance at 1 January 2021	**144**	**530**	**45**	**432**	**-**	**1,151**
Charge for the year	101	24	14	43	-	**182**
Disposals	(4)	(36)	(23)	(86)	-	**(149)**
Reversal of impairment	(1)	-	-	-	-	**(1)**
Reclassified from non-current assets held for sale	1	-	-	-	-	**1**
Reclassified from tangible assets	-	1	-	-	-	**1**
Reclassified to foreclosed assets	(10)	-	-	-	-	**(10)**
Balance at 31 December 2021	**231**	**519**	**36**	**389**	**-**	**1,175**
Charge for the year	102	26	12	44	-	**184**
Disposals	(17)	(20)	(3)	(77)	-	**(117)**
Reversal of impairment	(9)	-	-	-	-	**(9)**
Reclassified to foreclosed assets	(6)	-	(14)	-	-	**(20)**
Balance at 31 December 2022	**301**	**525**	**31**	**356**	**-**	**1,213**
Carrying value						
Balance at 31 December 2021	**1,451**	**79**	**49**	**162**	**50**	**1,791**
Balance at 31 December 2022	**1,358**	**94**	**74**	**160**	**43**	**1,729**

Notes to the financial statements (continued)

28 Property and equipment (continued)

(in HRK million)

Bank	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets acquired but not brought into use	**Total**
Acquisition cost						
Balance at 1 January 2021	**989**	**455**	**12**	**415**	**9**	**1,880**
Additions	-	-	-	-	193	**193**
Transfer into use	60	23	1	70	(154)	**-**
Disposals	(13)	(32)	(1)	(82)	-	**(128)**
Reclassified to non-current assets held for sale	(3)	-	-	-	-	**(3)**
Reclassified from tangible assets	-	3	-	-	-	**3**
Balance at 31 December 2021	**1,033**	**449**	**12**	**403**	**48**	**1,945**
Merger of PBZ Stambena Štedionica d.d.	2	-	-	-	-	**2**
Additions	-	-	-	-	160	**160**
Transfer into use	96	31	3	39	(169)	**-**
Disposals	(21)	(16)	(2)	(60)	-	**(99)**
Reclassified to non-current assets held for sale	(6)	-	-	-	-	**(6)**
Balance at 31 December 2022	**1,104**	**464**	**13**	**382**	**39**	**2,002**

Notes to the financial statements (continued)

28 Property and equipment (continued)

(in HRK million)

Bank	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	Assets acquired but not brought into use	**Total**
Accumulated depreciation						
Balance at 1 January 2021	**145**	**396**	**3**	**303**	**-**	**847**
Charge for the year	77	18	2	36	-	**133**
Disposals	-	(31)	-	(82)	-	**(113)**
Reversal of impairment	(1)	-	-	-	-	**(1)**
Reclassified from tangible assets	-	1	-	-	-	**1**
Balance at 31 December 2021	**221**	**384**	**5**	**257**	**-**	**867**
Merger of PBZ Stambena Štedionica d.d.	1	-	-	-	-	**1**
Charge for the year	74	21	2	38	-	**135**
Disposals	(17)	(15)	(1)	(56)	-	**(89)**
Modification	25	-	1	-	-	**26**
Balance at 31 December 2022	**304**	**390**	**7**	**239**	**-**	**940**
Carrying value						
Balance at 31 December 2021	**812**	**65**	**7**	**146**	**48**	**1,078**
Balance at 31 December 2022	**800**	**74**	**6**	**143**	**39**	**1,062**

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

Notes to the financial statements (continued)

29 Investment property

	(in HRK million)	
	GROUP	**BANK**
Acquisition cost		
Balance at 1 January 2021	**86**	**30**
Fair value adjustment	(12)	(6)
Balance at 31 December 2021	**74**	**24**
Fair value adjustment	(1)	(1)
Disposals	(40)	-
Balance at 31 December 2022	**33**	**23**
Carrying value		
Balance at 31 December 2021	**74**	**24**
Balance at 31 December 2022	**33**	**23**

The property rental income earned by the Group and the Bank from its investment property, all of which was leased out under operating leases, amounted to HRK 4 million (2021: HRK 7 million) for the Group and HRK 0,4 million for the Bank (2021: HRK 0,2 million) was presented within Note 11 Other operating income.

30 Non-current assets held for sale

At 31 December 2022, the non-current assets held for sale was stated at lower of their carrying amount and fair value less cost to sell and comprised the following assets:

			(in HRK million)	
	GROUP		**BANK**	
	2022	2021	2022	2021
Acquiring business held for sale	288	-	-	-
Investment property	21	22	8	8
Property and equipment	5	-	-	-
Foreclosed assets	-	1	-	-
	314	**23**	**8**	**8**

More information on sale of acquiring business is presented within Note 53 Subsequent events.

Notes to the financial statements (continued)

31 Other assets

(in HRK million)

	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Prepaid expenses	123	83	88	63
Foreclosed assets	51	61	5	7
Receivables in course of collection	20	11	-	1
Advance payments	2	7	-	1
Receivables from tax authority (except income tax)	9	7	-	-
Other assets	109	66	95	49
	314	**235**	**188**	**121**
Impairment	(7)	(29)	(1)	(2)
	307	**206**	**187**	**119**

Movement in impairment

(in HRK million)

	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Balance at 1 January	**29**	**48**	**2**	**17**
Net charge/(release)/ for the year	(1)	1	-	-
Fair value adjustment of foreclosed assets	-	1	-	1
Disposals	(21)	(4)	(1)	-
Transfer to non-current assets held for sale	-	(17)	-	(16)
Balance at 31 December	**7**	**29**	**1**	**2**

Movement in impairment on other assets is presented as part of Provisions for other items and other assets (Note 14 Impairment losses).

Notes to the financial statements (continued)

32 Current accounts and deposits from banks

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Demand deposits	1,606	1,139	1,578	1,254
Term deposits	821	156	108	657
	2,427	**1,295**	**1,686**	**1,911**

33 Current accounts and deposits from customers

a) Analysis by term

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Demand deposits	103,572	86,081	78,867	62,896
Term deposits	23,130	23,899	16,661	18,216
	126,702	**109,980**	**95,528**	**81,112**

b) Analysis by source

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Retail deposits	84,406	73,544	65,040	54,519
Corporate deposits	31,977	27,337	22,880	19,424
Public sector and other institutions	10,319	9,099	7,608	7,169
	126,702	**109,980**	**95,528**	**81,112**

Notes to the financial statements (continued)

34 Interest-bearing borrowings and other financial liabilities

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Domestic borrowings	2,732	2,898	2,614	2,787
Foreign borrowings	1,901	3,779	404	489
Lease liabilities	244	279	240	306
Other financial liabilities	20	21	20	21
Accrued fee	(3)	(5)	(5)	(6)
	4,894	**6,972**	**3,273**	**3,597**

a) Foreign borrowings

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

b) Domestic borrowings

Domestic borrowings of the Group mainly consist of loans received from the Croatian Bank for Reconstruction and Development ("HBOR") in the amount of HRK 1,6 billion (2021: HRK 1,8 billion) and Croatian National Bank in the amount of HRK 1 billion (2021: HRK 1 billion).

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

The Group has not had any defaults of principal, interest or other breaches with regard to any liabilities during 2022 or 2021.

c) *Undrawn commitments*

At 31 December 2022, the Group had available HRK 3.5 billion (2021: HRK 4.6 billion) and the Bank HRK 3.1 billion (2021: HRK 3.6 billion) of undrawn committed borrowing facilities.

35 Senior non-preferred debt

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Senior non-preferred debt	1,019	827	1,019	827
	1,019	**827**	**1,019**	**827**

To ensure sound position and to anticipate primarily the impact of loans increase on RWA for credit risk during 2022 and 2021, for the purpose of compliance to minimal requirement for eligible liabilities (MREL), the Bank has utilized up until now three tranches of senior non preferred loans issued by Parent Bank.

Notes to the financial statements (continued)

36 Other liabilities

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Credit card payables and trade payables	956	872	60	48
Items in the course of settlement and other liabilities	715	710	695	571
Salaries and other personnel costs	187	140	145	95
	1,858	**1,722**	**900**	**714**

37 Accrued expenses and deferred income

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Accrued expenses	285	237	157	139
Deferred income	126	81	8	9
	411	**318**	**165**	**148**

Notes to the financial statements (continued)

38 Provisions

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Provisions for liabilities and charges	767	714	670	665
Retirement benefit obligations	15	23	-	-
	782	**737**	**670**	**665**

a) Provisions for liabilities and charges

(in HRK million)

Group	Total	Provisions for off-balance-sheet items	Provisions for court cases	Provisions for other items
Balance as at 1 January 2022	**714**	**250**	**395**	**69**
Net charge in the income statement	142	(18)	110	50
Transfer from other liabilities	-	-	-	-
Provisions used during the year	(89)	-	(65)	(24)
Exchange differences	-	-	-	-
Balance as at 31 December 2022	**767**	**232**	**440**	**95**
Balance as at 1 January 2021	**531**	**219**	**213**	**99**
Net charge in the income statement	266	43	216	7
Transfer from other liabilities	21	-	-	21
Provisions used during the year	(92)	-	(34)	(58)
Exchange differences	(12)	(12)	-	-
Balance as at 31 December 2021	**714**	**250**	**395**	**69**

Notes to the financial statements (continued)

38 Provisions (continued)

a) Provisions for liabilities and charges (continued)

(in HRK million)

Bank	**Total**	Provisions for off-balance-sheet items	Provisions for court cases	Provisions for other items
Balance as at 1 January 2022	**665**	**227**	**375**	**63**
Net charge in the income statement	84	(33)	86	31
Transfer from other liabilities	-	-	-	-
Provisions used during the year	(79)	-	(59)	(20)
Exchange differences	-	-	-	-
Balance as at 31 December 2022	**670**	**194**	**402**	**74**
Balance as at 1 January 2021	**480**	**197**	**197**	**86**
Net charge in the income statement	257	42	211	4
Transfer from other liabilities	21	-	-	21
Provisions used during the year	(81)	-	(33)	(48)
Exchange differences	(12)	(12)	-	-
Balance as at 31 December 2021	**665**	**227**	**375**	**63**

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

Provisions for off-balance-sheet items, court cases and other items are recognised in other impairment losses and provisions in the income statement (Note 14 Impairment losses).

Provision for off-balance-sheet items relates to specific and collective impairment provisions on credit-related contingencies as disclosed in Note 39 Contingent liabilities and commitments.

As at 31 December 2022 there were several litigation cases taken against the Group, In the opinion of management, there is a probability that the Group may lose certain cases, in respect of which management has recognised provisions for court cases as at 31 December 2022 in the amount of HRK 440 million (31 December 2021: HRK 395 million) for the Group and HRK 402 million (31 December 2021: HRK 375 million), for the Bank, respectively.

Notes to the financial statements (continued)

38 Provisions (continued)

a) Provisions for liabilities and charges (continued)

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

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

On 20 December 2022 the Civil Department of the Supreme Court of the Republic of Croatia adopted the legal understanding of the legal effects of the agreement on the conversion of the Loan Agreement from CHF to EUR and consumer rights. Pursuant to the legal understanding, a consumer who concluded a conversion agreement in accordance with the Conversion Law, after concluding that agreement, is entitled to the payment of the corresponding statutory interest on overpaid amounts that the bank took into account when calculating the loan conversion, from the date of each individual payment until the date of the conversion. Once the legal understanding will be recorded by the Court Practice Records Department it will be final and binding for lower instance courts.

The number of new individual lawsuits filed against PBZ in 2022 was lower than those in 2021. At the end of 2022, the total pending cases amounted to a few thousand. It cannot be excluded the possibility that additional lawsuits might be filed against PBZ in the future in connection with CHF loans, considering that the statute of limitation for submitting the lawsuits related to CHF loans expires on 14th June 2023.

Notes to the financial statements (continued)

38 Provisions (continued)

a) Provisions for liabilities and charges (continued)

The management of the Bank is reasonably confident that the amount of provisions recognized as at 31 December 2022 is adequate – according to available information - to meet the obligations arising from the claims filed so far. The evolution of the overall matter is anyhow carefully monitored in order to take appropriate initiatives, if necessary, in consistence with any future developments.

The provisions for mentioned proceedings are not disclosed, due to the possibility that such disclosure might adversely influence the Bank's position in the active legal disputes. The management of the Bank deems that the provisions are adequately calculated,

b) Retirement benefit obligation

	(in HRK million)
Group	Retirement benefit obligations
Balance as at 1 January 2022	**23**
Net charge in the income statement	-
Actuarial gain	(8)
Balance as at 31 December 2022	**15**
Balance as at 1 January 2021	**22**
Net charge in the income statement	1
Balance as at 31 December 2021	**23**

The defined benefit scheme liabilities are measured on an actuarial basis using the book reserve method, which measures actuarial liabilities in accordance with the expected wage/salary increase from the valuation date until the foreseen retirement of the employed person. The wage/salary increase comprises promotion and inflation-related rise. Under IAS 19, the calculated current scheme liabilities are discounted using the rates equivalent to the market yields at the balance-sheet date on high quality 10-years corporate bonds that are denominated in the currency in which the benefits will be paid by the employer. For the calculation of actuarial gains and losses, the following assumptions have been used:

- The discount rate of 4.59% (2021: 0.94%), and
- Future salary increases of 1,8% p.a. from 2023 onwards (2022: 1.8%).

Notes to the financial statements (continued)

39 Contingent liabilities and commitments

Credit-related contingencies and commitments

Credit-related contingencies and commitments arise from various banking products, the primary purpose of which is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that customers cannot meet their obligations to third parties, carry the same credit risk as loans and advances. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw funds on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly lower risk. Management has assessed that a provision of HRK 234 million for the Group and HRK 194 million for the Bank (2021: HRK 250 million and HRK 227 million respectively) is sufficient to cover risks due to the default of the respective counterparties (refer to Note 47 Financial risk management policies).

The aggregate amounts of outstanding guarantees, letters of credit and other commitments at the end of the year were as follows:

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Undrawn lending commitments	22,276	18,928	17,588	14,432
Performance guarantees	3,564	2,703	2,483	2,274
Foreign currency payment guarantees	1,563	1,828	832	866
Kuna payment guarantees	596	462	590	455
Foreign currency letters of credit	78	115	56	95
	28,077	**24,036**	**21,549**	**18,122**

Notes to the financial statements (continued)

40 Share capital

a) Issued share capital

Issued share capital as at 31 December 2022 amounted to HRK 1,877 million (31 December 2021: HRK 1,907 million). The total number of authorised registered shares at 31 December 2022 was 18,765,747 (2021: 19,074,769) with a nominal value of HRK 100 per share (2021: HRK 100 per share).

The parent company of the Bank is Intesa Sanpaolo Holding International and the ultimate controlling party is Intesa Sanpaolo S.p.A. Financial reports of the parent company are available on web page https://group.intesasanpaolo.com/en/investor-relations/financial-reports.

The ownership structure as at 31 December 2022 and 31 December 2021 was as follows:

			REGISTERED SHARES	
	31 December 2022		31 December 2021	
	Number of shares	Percentage of ownership	Number of shares	Percentage of ownership
Intesa Sanpaolo Holding International	18,765,747	100.0%	18,591,522	97.5%
Non-controlling shareholders	-	-	174,225	0.9%
Treasury shares	-	-	309,022	1.6%
	18,765,747	**100.0%**	**19,074,769**	**100.0%**

Each share has an equal proportion in the share capital of the Bank and its participating value in the share capital as well. The proportion of each share in the share capital of the Bank is determined on the basis of the number of the issued shares.

On 26 April 2021, General Assembly of the Bank reached a decision to withdraw from listing on the regulated market Zagreb Stock Exchange, all the listed shares, namely 19,074,769 ordinary shares with a nominal value of HRK 100.00, issued in dematerialised form and deposited in the Central Depository and Clearing Company Inc, under ticker PBZ-R-A, Bank's shares were delisted from regulated market Zagreb Stock Exchange on 7 May 2021. Due to the Decision to withdraw from listing on the regulated market Zagreb Stock Exchange, the Bank bought out shares, at a fair price (832,45 HRK), from all the Bank's shareholders who voted, at the Annual General Meeting against the Decision on the withdrawal of shares and who required from the Bank, that the Bank takes over their shares. During the delisting process the Bank redeemed in total 263,632 of own shares. Consequently, own shares were transferred to the main shareholder Intesa Sanpaolo Holding International. On 25 February 2022, General Assembly reached a decision to reduce share capital for the amount of treasury shares.

Shares held by president of the Management Board, deputy president of the Management Board and other members of the Management Board is presented in the table below.

	(number of shares)	
	31 December 2022	31 December 2021
Dinko Lucić	-	1,501
Alessio Cioni	-	1,205
Andrea Pavlović	-	419
Draženko Kopljar	-	1,094

Notes to the financial statements (continued)

40 Share capital (continued)

b) Share premium

The Bank recognises share premium in an amount of HRK 1,570 million (31 December 2021: HRK 1,570 million) representing the excess of the paid-in amount over the nominal value of the issued shares.

c) Treasury shares

During 2022 and 2021 the treasury shares were used for remuneration of key employees of the Group.

d) Own shares held as collateral

As of 31 December 2022 the Bank hold 1,964 (31 December 2021: 2,021) of its own shares as collateral for loans to third parties.

e) Other reserves

Other reserves comprise legal, capital gains and treasury shares reserves.

Legal reserve

As required by the Companies Act, companies in Croatia are required to appropriate 5% of their annual net profit into legal reserves until they, together with capital reserves, reach 5% of issued share capital.

Capital gain/loss

Capital gain/loss is a result of transactions with treasury shares of the Bank in previous periods.

Treasury share reserve

In 2021 the Bank reallocated 173,6 million HRK of its retained earnings to the treasury shares reserve. Treasury shares reserve as of 31 December 2021 amounts to 273,6 million HRK (including the 100 million HRK of treasury shares reserves from previous years). As of 31 December 2022, due to the cancellation of shares process, treasury share reserve was transferred to retained earnings.

Translation reserves

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign subsidiaries. As at 31 December 2022 translation reserve amounted to HRK 21 million (2021: HRK 27 million) for the Group.

Other revaluation reserves

Other revaluation reserves include valuation reserve of tangible assets due to the change in the accounting criteria in the year 2017 for the disclosure and measurement of functional and investment property. The valuation reserve of tangible assets amounts to HRK 310 million for the Group (2021: HRK 320 million) and HRK 147 million for the Bank (2021: HRK 157 million).

Other reserves

The amount of other reserves for the Group includes statutory reserves of Intesa Sanpaolo Bank d.d. Slovenia which the Intesa Sanpaolo Bank d.d. Slovenia according to its Statute, creates until they achieve an amount which is fifteen times that of the Bank's registered capital stock. In each financial year, a part of the net profit that remained after any losses carried forward, legal reserves and reserves for own shares have been covered is allocated to statutory reserves.

Notes to the financial statements (continued)

40 Share capital (continued)

f) Fair value reserve

Fair value reserve includes unrealised gains and losses on changes in the fair value of financial assets measured at fair value through other comprehensive income, net of income tax.

g) Retained earnings

Retained profits are generally available to shareholders, subject to their approval.

During 2022 in respect to 2021 dividend was proposed. The amount of dividends distributed to equity holders during 2022 in respect of 2021 is HRK 59.40 per share. During 2021 in respect to 2020 dividend was proposed. The amount of dividends distributed to equity holders during 2021 in respect of 2020 is HRK 43.53 per share.

h) Non-controlling interest

NCI are measured initially at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition, NCI in the amount of HRK 1,197 million (2021: HRK 1,203 million) relate to Intesa Sanpaolo Bank d.d. Slovenia and Intesa Sanpaolo Bank d.d. Bosnia and Herzegovina.

Notes to the financial statements (continued)

41 Cash and cash equivalents

The table below presents an analysis of cash and cash equivalents for the purposes of the cash flows statement:

(in HRK million)

	Note	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Cash and current accounts with banks	18	46,444	35,885	38,647	27,403
Loans and advances to banks with maturity of up to 90 days		5,321	4,109	4,576	4,152
Other deposits with the CNB	19	2,976	-	2,976	-
		54,741	**39,994**	**46,199**	**31,555**

42 Managed funds for and on behalf of third parties

(in HRK million)

	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Assets under custody – investment and pension funds	48,979	51,375	43,388	44,278
Assets under custody	7,024	8,401	7,024	8,401
Assets under portfolio management	680	247	590	121
	56,683	**60,023**	**51,002**	**52,800**

The Group and the Bank provide custody services to banks and customers, including investment and pension funds. These assets are accounted for separately from those of the Group and kept off-balance sheet. The Group is compensated for its services by fees chargeable to the clients.

Funds under management in the obligatory pension fund managed by the Bank's associate PBZ Croatia Osiguranje d.d. amount to HRK 22,910 million as at 31 December 2022 (31 December 2021: HRK 23,479 million). These funds are held by a custody bank which is not a member of the Group.

Fees earned from custody services, assets under management in investment funds and portfolio management amounted to HRK 21 million for the Group and HRK 16 million for the Bank (2021: HRK 19 million for the Group and HRK 14 million for the Bank).

Notes to the financial statements (continued)

43 Leases

a) Leases as lessor

PBZ Leasing d.o.o. and Intesa Sanpaolo Bank d.d. Slovenia, both members of the PBZ Group, are engaged in providing finance and operating lease arrangements to its clients of various items of vehicles, vessels, real estate and equipment in its capacity of a lessor. Net investment in finance leases as at 31 December 2022 amounted to HRK 1,284 million (31 December 2021: HRK 1,109 million) which is included within loans and advances to customers (Note 25 Loans and advances to customers) in the Group financial statements.

The carrying value of leased property and equipment under operating lease as at 31 December 2022 amounted to HRK 306 million (31 December 2021: HRK 383 million) and are classified within property and equipment (Note 28 Property and equipment).

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are set out below:

Finance leases under IFRS 16

(in HRK million)

	2022	2021
Less than one year	507	458
Between one and two years	338	286
Between two and three years	252	204
Between three and four years	155	119
Between four and five years	81	61
More than five years	13	24
Gross investment in finance lease	**1,346**	**1,152**
Unearned finance income	(62)	(43)
Net investment in finance lease	**1,284**	**1,109**

Operating leases under IFRS 16

(in HRK million)

	2022	2021
Less than one year	33	35
Between one and two years	27	29
Between two and three years	24	24
Between three and four years	23	21
Between four and five years	16	20
More than five years	46	55
Total	**169**	**184**

Notes to the financial statements (continued)

43 Leases (continued)

b) Leases as lessee

The Group and the Bank leases a number of office premises. The leases typically run for a period of 3 to five years with the option to renew the lease after that time.

The Group and the Bank also lease IT equipment, These leases are short-term and/or leases of low value items. The Group and the Bank have elected not to recognize Right of use assets and Lease liabilities for these leases.

Information about leases for which the Group and the Bank are lessee is presented below:

Right-of-use

(in HRK million)

Group	Land and buildings	Furniture and other equip-ment	Motor vehicles	Computer equip-ment	**Total**
Balance at 1 January 2022	**216**	**1**	**6**	**49**	**272**
Depreciation charge of the year	(60)	(1)	(4)	(12)	**(77)**
Additions	35	7	3	7	**52**
Disposals	(10)	-	-	(4)	**(14)**
Balance at 31 December 2022	**181**	**7**	**5**	**40**	**233**
Balance at 1 January 2021	**225**	**2**	**9**	**48**	**284**
Depreciation charge of the year	(66)	(1)	(3)	(11)	**(81)**
Additions	61	-	1	12	**74**
Disposals	(4)	-	(1)	-	**(5)**
Balance at 31 December 2021	**216**	**1**	**6**	**49**	**272**

Notes to the financial statements (continued)

43 Leases (continued)

b) Leases as lessee (continued)

(in HRK million)

Bank	Land and buildings	Furniture and other equip-ment	Motor vehicles	Computer equip-ment	**Total**
Balance at 1 January 2022	**237**	**1**	**6**	**49**	**293**
Merger of PBZ Stambena Štedionica d.d.	1	-	-	-	**1**
Depreciation charge of the year	(50)	-	(3)	(12)	**(65)**
Additions	27	-	2	7	**36**
Disposals	(29)	-	(1)	(4)	**(34)**
Balance at 31 December 2022	**186**	**1**	**4**	**40**	**231**
Balance at 1 January 2021	**253**	**2**	**8**	**48**	**311**
Depreciation charge of the year	(56)	(1)	(2)	(11)	**(70)**
Additions	52	-	1	12	**65**
Disposals	(12)	-	(1)	-	**(13)**
Balance at 31 December 2021	**237**	**1**	**6**	**49**	**293**

Notes to the financial statements (continued)

43 Leases (continued)

b) Leases as lessee

Maturity analysis - Contractual undiscounted cash flows

(in HRK million)

Group	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	**Total**
Less than one year	64	2	4	12	**82**
Between one and five years	115	4	5	25	**149**
More than five years	21	2	-	-	**23**
Balance at 31 December 2022	**200**	**8**	**9**	**37**	**254**
Less than one year	61	1	3	12	**77**
Between one and five years	142	-	4	32	**177**
More than five years	35	1	-	1	**37**
Balance at 31 December 2021	**238**	**2**	**7**	**45**	**291**

(in HRK million)

Bank	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	**Total**
Less than one year	53	1	3	12	**69**
Between one and five years	121	-	2	25	**148**
More than five years	34	-	-	-	**34**
Balance at 31 December 2022	**208**	**1**	**5**	**37**	**251**
Less than one year	56	1	3	12	**72**
Between one and five years	157	-	3	32	**192**
More than five years	53	-	-	1	**54**
Balance at 31 December 2021	**266**	**1**	**6**	**45**	**318**

Notes to the financial statements (continued)

43 Leases (continued)

b) Leases as lessee

Amounts recognised in profit or loss

- under IFRS 16

(in HRK million)

Group	Land and buildings	Furniture and other equipment	Motor vehicles	Computer equipment	**Total**
Interest on lease liabilities	4	-	-	1	**5**
Expenses relating to short-term leases	1	-	-	-	**1**
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	1	9	-	-	**10**
Balance at 31 December 2022	**6**	**9**	**-**	**1**	**16**
Interest on lease liabilities	7	-	1	2	**10**
Expenses relating to short-term leases	3	-	-	-	**3**
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	1	10	-	-	**11**
Balance at 31 December 2021	**11**	**10**	**1**	**2**	**24**

(in HRK million)

Bank	Land and buildings	Computer equipment	**Total**
Interest on lease liabilities	4	4	**8**
Balance at 31 December 2022	**4**	**4**	**8**
Interest on lease liabilities	5	1	**6**
Balance at 31 December 2021	**5**	**1**	**6**

Notes to the financial statements (continued)

44 Related party transactions

The parent company of Privredna banka Zagreb and its subsidiaries is Intesa Sanpaolo Holding International which holds 100,0% of the Bank's share capital as at 31 December 2022 (97.5% as at 31 December 2021). The ultimate controlling party is Intesa Sanpaolo S.p.A, a bank incorporated in Italy.

The Bank considers that it has an immediate related party relationship with: its ultimate parent and its affiliates; other key shareholders and their affiliates; its subsidiaries and associates and the pension fund managed by its associate, PBZ Croatia Osiguranje d.d.; Supervisory Board members, Management Board members and other executive management (together "key management personnel"), in accordance with the International Accounting standard 24 "Related party Disclosures" ("IAS 24"). The Bank grants loans to or places deposits with related parties in the ordinary course of business.

Notes to the financial statements (continued)

44 Related party transactions (continued)

The volumes of related party transactions during the year and outstanding balances at the year-end were as follows:

(in HRK million)

Group	Key management personnel	Ultimate controlling party - Intesa Sanpaolo S.p.A	Associates	Other shareholders and their affiliates and affiliates of ultimate controlling party
Deposits and loans given				
Balance at 1 January 2022	**10**	**736**	**-**	**356**
Changes during the year	3	928	-	194
Balance at 31 December 2022	**13**	**1,664**	**-**	**550**
Interest income for the year ended 31 December 2022	**-**	**18**	**-**	**5**
Interest income for the year ended 31 December 2021	-	2	-	1
Deposits and loans received				
Balance at 1 January 2022	**53**	**1,479**	**72**	**268**
Changes during the year	(7)	1,519	(21)	(136)
Balance at 31 December 2022	**46**	**2,998**	**51**	**132**
Interest expense for the year ended 31 December 2022	**(6)**	**(27)**	**-**	**(1)**
Interest expense for the year ended 31 December 2021	**-**	**3**	**-**	**1**
Contingent liabilities and commitments at 31 December 2022	**4**	**195**	**-**	**4**
Contingent liabilities and commitments at 31 December 2021	-	201	-	3
Fees and other income for the year ended 31 December 2022	**-**	**19**	**11**	**35**
Fees and other income for the year ended 31 December 2021	**-**	**12**	**10**	**32**
Fees and other expense for the year ended 31 December 2022	**-**	**(34)**	**-**	**(42)**
Fees and other expense for the year ended 31 December 2021	-	(4)	-	(21)

Notes to the financial statements (continued)

44 Related party transactions (continued)

(in HRK million)

Bank	Key management personnel	Bank's subsidiaries	Ultimate controlling party - Intesa Sanpaolo S.p.A	Associates	Other shareholders and their affiliates and affiliates of ultimate controlling party
Deposits and loans given					
Balance at 1 January 2022	**7**	**849**	**5**	**-**	**3**
Changes during the year	3	319	168		2
Balance at 31 December 2022	**10**	**1,168**	**173**	**-**	**5**
Interest income for the year ended 31 December 2022	**-**	**11**	**5**	**-**	**-**
Interest income for the year ended 31 December 2021	-	8	-	-	
Deposits and loans received					
Balance at 1 January 2022	**40**	**1,099**	**836**	**72**	**100**
Changes during the year	(4)	(1,030)	472	(21)	(27)
Balance at 31 December 2022	**36**	**69**	**1,308**	**51**	**73**
Interest expense for the year ended 31 December 2022	**-**	**-**	**(26)**	**-**	**-**
Interest expense for the year ended 31 December 2021	-	(5)	-	-	-
Contingent liabilities and commitments at 31 December 2022	**2**	**93**	**135**		**4**
Contingent liabilities and commitments at 31 December 2021	2	36	153	-	3
Fees and other income for the year ended 31 December 2022	**-**	**566**	**18**	**11**	**33**
Fees and other income for the year ended 31 December 2021	-	196	11	10	32
Fees and other expense for the year ended 31 December 2022	**-**	**(22)**	**(29)**	**-**	**(40)**
Fees and other expense for the year ended 31 December 2021	-	(17)	-	-	(20)

No provisions were recognised in respect of deposits and loans given to related parties as at 31 December 2022 (31 December 2021: nil).

Notes to the financial statements (continued)

44 Related party transactions (continued)

Annual key management remuneration:

	(in HRK million)	
		BANK
	2022	2021
Short-term benefits	**53**	**66**
- salaries paid for the current year	53	66
Long-term benefits	**16**	**22**
- paid during the current year in respect of earlier years	16	22
	69	**88**

Key management personnel include Management Board and senior executive directors as well as executive directors responsible for areas of strategic relevance. The total number of key management personnel of the Group as at 31 December 2022 was 44 (31 December 2021: 61).

Bonuses in 2022 were mostly paid in cash, while for 17 Risk takers bonuses also included share allocations on a deferred basis.

Share-based payments

Intesa Sanpaolo launched a long-term bonus scheme, in favour of executives holding key positions in the Group (so called Risk takers), aimed at achieving business plan objectives and increasing the value of the Intesa Sanpaolo Group.

This scheme entitles the key executives to a cash payment of variable incentive, split in cash and shares payment, where the share's payment is based on the price of entitled shares, if certain performance conditions are fulfilled. The fair value of services received from key executives is measured by reference to the fair value of the instrument granted which is based on the quoted market prices.

	Number of instruments held (in units)		The carrying amount of liabilities for cash-settled arrangements (in HRK million)	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Awards granted	342,852	40,025	5	9

Notes to the financial statements (continued)

45 Capital

The Bank maintains an actively managed capital base to cover risks in the business. The adequacy of the Bank's capital is monitored using among other measures, the rules and ratios established by the Regulation of the European parliament on prudential requirements for credit institutions (hereafter: CRR) and Croatian National Bank in supervising the Bank.

Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities, In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue capital securities.

For the purposes of capital adequacy computation the Bank choose to adopt the "static approach' which allows the bank to gradually include IFRS 9 impact in the common capital calculation as follows 5% in 2018, 15% in 2019, 30% in 2020, 50% in 2021 and 75% in 2022.

Regulatory capital and capital ratios according to European Bank Authority requirements and CNB national discretions, calculated for the Bank only (as of the date of issuance of these financial statements information on regulatory capital and risk-weighted assets and other risk elements is unaudited), are as follows:

Regulatory capital (unaudited)

	(in HRK million)	
		BANK
	2022	2021
Issued share capital	1,877	1,907
Share premium	1,570	1,570
Treasury shares (net of share premium on treasury shares)	-	(221)
Retained earnings (excluding profit for the period)	11,081	10,699
Accumulated other comprehensive income	45	154
Other reserves	126	390
Deductions in accordance with EBA regulations	(331)	113
Common Equity Tier 1 capital (unaudited)	**14,368**	**14,612**
Tier 1 capital	**14,368**	**14,612**
Total regulatory capital (unaudited)	**14,368**	**14,612**
Risk weighted assets and other risk elements (unaudited)	**52,367**	**51,045**
Common Equity Tier 1 capital ratio (unaudited)	27.44%	28.63%
Tier 1 (unaudited)	27.44%	28.63%
Total capital ratio (unaudited)	27.44%	28.63%

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis.

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Investment securities measured at fair value through other comprehensive income are generally measured at fair value with the exception of some equity investments which are carried at cost less impairment given that their fair value cannot be reliably measured.

a) Financial instruments measured at fair value and fair value hierarchy

The determination of fair value of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and for this reason, when calculating the fair value of a financial asset or liability all material risks that affect them must be identified and taken into consideration.

When measuring fair values, the Bank takes into account the IFRS fair value hierarchy that reflects the significance of the inputs used in making the measurement. Each instrument is individually evaluated, The levels are determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The financial instruments carried at fair value have been categorised under the three levels of the IFRS fair value hierarchy as follows:

Level 1: Instruments valued using quoted (unadjusted) prices in active markets for identical assets or liabilities; these are instruments where the fair value can be determined directly from prices which are quoted in active, liquid markets.

- These instruments include: liquid debt and equity securities traded on liquid markets, and quoted units in investment funds.

Level 2: Instruments valued using valuation techniques using observable market data. These are instruments where the fair value can be determined by reference to similar instruments trading in active markets, or where a technique is used to derive the valuation but where all inputs to that technique are observable.

- These instruments include: less-liquid debt, equity securities and derivatives valued by a model which uses Level 1 inputs.

Level 3: Instruments valued using valuation techniques using market data which is not directly observable: these are instruments where the fair value cannot be determined directly by reference to market-observable information, and some other pricing technique must be employed. Instruments classified in this category have an element which is unobservable and which has a significant impact on the fair value.

- These instruments include: illiquid debt securities and illiquid equity securities.

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

a) Financial instruments measured at fair value and fair value hierarchy (continued)

The following table presents an analysis of financial instruments carried at fair value by the level of hierarchy:

(in HRK million)

Group	Level 1	Level 2	Level 3	2022 **Total**	Level 1	Level 2	Level 3	2021 **Total**
Derivative assets	-	652	-	**652**	-	43	-	**43**
Total	**-**	**652**	**-**	**652**	**-**	**43**	**-**	**43**
Trading assets								
Government bonds	545	-	-	**545**	1,135	-	-	**1,135**
Total	**545**	**-**	**-**	**545**	**1,135**	**-**	**-**	**1,135**
Investment securities								
Government bonds and treasury bills	3,552	6,215	-	**9,767**	3,276	6,187	-	**9,463**
Bank's bonds	-	50	-	**50**	-	56	-	**56**
Other financial institutions bonds	369	-	-	**369**	-	-	-	**-**
Corporate bonds	-	36	-	**36**	-	67	-	**67**
Equities	110	6	2	**118**	172	7	4	**183**
Total	**4,031**	**6,307**	**2**	**10,340**	**3,448**	**6,317**	**4**	**9,769**
Financial assets	**4,576**	**6,959**	**2**	**11,537**	**4,583**	**6,360**	**4**	**10,947**
Derivative financial liabilities	-	19	-	**19**	-	99	-	**99**
Financial liabilities	-	**19**	**-**	**19**	**-**	**99**	**-**	**99**

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

a) Financial instruments measured at fair value and fair value hierarchy (continued)

(in HRK million)

Bank	Level 1	Level 2	Level 3	2022 **Total**	Level 1	Level 2	Level 3	2021 **Total**
Derivative assets	-	297	-	**297**	-	37	-	**37**
Total	**-**	**297**	**-**	**297**	**-**	**37**	**-**	**37**
Trading assets								
Government bonds	545	-	-	**545**	1,135	-	-	**1,135**
Total	**545**	**-**	**-**	**545**	**1,135**	**-**	**-**	**1,135**
Investment securities								
Government bonds and treasury bills	1,952	5,972	-	**7,924**	2,053	5,376	-	**7,429**
Corporate bonds	-	25	-	**25**	-	46	-	**46**
Equities	29	-	1	**30**	68	-	3	**71**
Total	**1,981**	**5,997**	**1**	**7,979**	**2,121**	**5,422**	**3**	**7,546**
Financial assets	**2,526**	**6,294**	**1**	**8,821**	**3,256**	**5,459**	**3**	**8,718**
Derivative financial liabilities	-	8	-	**8**	-	1	-	**1**
Financial liabilities	**-**	**8**	**-**	**8**	**-**	**1**	**-**	**1**

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

a) Financial instruments measured at fair value and fair value hierarchy (continued)

During 2022 and 2021, no transfers from Level 1 to Level 2 or from Level 2 to Level 1 occurred, as there were no changes to the methodology used in determining levels of the fair value hierarchy, while the market activity of financial instruments in the Group's portfolios remained unchanged.

The existence of published prices quotations in an active market is the best evidence of fair value and these quoted prices (Effective Market Quotes) shall therefore be used as the primary method for measuring financial assets and liabilities in the trading portfolio. If the market for a financial instrument is not active, the Group determines the fair value by using a valuation technique. Valuation techniques include:

- using market values which are indirectly connected to the instrument being measured, deriving from products with similar risk characteristics (Comparable Approach);
- valuations conducted using (even only in part) inputs not deriving from parameters observable on the market, for which estimates and assumptions formulated by the assessor are used (Mark-to-Model).

Given the uncertainties of the domestic market, primarily characterised by low liquidity where market conditions do not show active trading but rather inactive, the Group primarily uses valuation techniques based on the following principles:

- used yield curves are created from interest rate quotations observed on the market;
- an appropriate yield curve (the one that is associated with the same currency in which the security, whose price is modelled, is denominated) is used in discounting of all the security's cash flows in order to determine its present value;
- in determining the fair value of bonds issued by corporate issuers and municipality bonds, the Group additionally uses the spreads associated with the internal credit rating of the issuer, which is then added to the yield curve for valuation thus capturing credit risk and various other counterparty related risks. Estimates for unobservable input was 4.15%. Significant increases in those inputs would result in lower fair values, while significant reduction would result in higher fair values. Considering the relatively small size of the financial instruments classified as Level 3, changing one or more of the assumptions would have insignificant effects on the overall financial statements.

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

a) Financial instruments measured at fair value and fair value hierarchy (continued)

The following table presents a reconciliation from the beginning balances to the ending balances from fair value measurements in Level 3 of the fair value hierarchy.

(in HRK million)

	GROUP Equities	**BANK** Equities
Balance at 1 January 2022	**4**	**3**
Sale	(2)	(2)
Balance at 31 December 2022	**2**	**1**
Balance at 1 January 2021	**23**	**21**
Total gains or losses:	(4)	(4)
in profit or loss	(4)	(4)
Sale	(15)	(14)
Balance at 31 December 2021	**4**	**3**

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

b) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value for the Group and the Bank and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

(in HRK million)

Group	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2022					
Assets					
Cash and current accounts with banks	-	46,444	-	46,444	46,444
Balances with CNB	-	2,976	-	2,976	2,976
Loans and advances to banks	-	7,236	615	7,851	7,851
Loans and advances to customers	-	21,880	63,438	85,318	83,919
Investment securities measured at amortised cost	-	871	919	1,790	2,014
Liabilities					
Current accounts and deposits from banks	-	2,427	-	2,427	2,427
Current accounts and deposits from customers	-	126,838	-	126,838	126,702
Interest-bearing borrowings and other financial liabilities	-	5,129	-	5,129	4,894
31 December 2021					
Assets					
Cash and current accounts with banks	-	35,885	-	**35,885**	**35,885**
Balances with CNB	-	-	4,533	**4,533**	**4,533**
Loans and advances to banks	-	5,769	509	**6,278**	**6,230**
Loans and advances to customers	-	20,135	59,830	**79,965**	**78,679**
Investment securities measured at amortised cost	-	1,545	425	**1,970**	**1,982**
Liabilities					
Current accounts and deposits from banks	-	1,295	-	**1,295**	**1,295**
Current accounts and deposits from customers	-	110,233	-	**110,233**	**109,980**
Interest-bearing borrowings and other financial liabilities	-	7,000	-	**7,000**	**6,972**

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

b) Financial instruments not measured at fair value (continued)

(in HRK million)

Bank	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
31 December 2022					
Assets					
Cash and current accounts with banks	-	38,647	-	38,647	38,647
Balances with CNB	-	2,976	-	2,976	2,976
Loans and advances to banks	-	5,420	151	5,571	5,571
Loans and advances to customers	-	14,049	45,427	59,476	57,979
Investment securities measured at amortised cost	-	871	919	1,790	2,014
Liabilities					
Current accounts and deposits from banks	-	1,686	-	1,686	1,686
Current accounts and deposits from customers	-	95,639	-	95,639	95,528
Interest-bearing borrowings and other financial liabilities	-	3,400	-	3,400	3,273
31 December 2021					
Assets					
Cash and current accounts with banks	-	27,403	-	**27,403**	**27,403**
Balances with CNB	-	-	4,533	**4,533**	**4,533**
Loans and advances to banks	-	4,707	-	**4,707**	**4,659**
Loans and advances to customers	-	12,742	42,375	**55,117**	**53,835**
Investment securities measured at amortised cost	-	1,545	401	**1,946**	**1,958**
Liabilities					
Current accounts and deposits from banks	-	1,911	-	**1,911**	**1,911**
Current accounts and deposits from customers	-	81,344	-	**81,344**	**81,112**
Interest-bearing borrowings and other financial liabilities	-	3,653	-	**3,653**	**3,597**

Notes to the financial statements (continued)

46 Fair values of financial assets and liabilities (continued)

b) Financial instruments not measured at fair value (continued)

The following methods and assumptions have been made in estimating the fair value of financial instruments:

- There are no significant differences between carrying value and fair value of cash and current accounts with banks and balances with the Croatian National Bank given the short maturity of such assets.
- Loans and advances to banks and customers are presented net of impairment allowance. The estimated fair value of loans and advances represents the discounted amount of the estimated future cash flows expected to be received. Expected future cash flows are discounted at current market rates. Valuation of performing and non-performing loans includes estimation and is therefore classified as Level 3 in fair value hierarchy. Expected future impairment losses are not taken into account. The fair value of debt securities classified as loans and receivables, representing Croatian Government bonds, is measured using valuation techniques based on the yield curves created from interest rate quotations observed on the market and are consequently classified as Level 2 in the fair value hierarchy, while fair value of other debt securities classified as loans and receivables is measured using spreads associated with internal credit ratings of the issuers and these securities are classified as Level 3 in the fair value hierarchy.
- The estimated fair value of fixed-interest term deposits is based on the expected cash flows discounted using current market rates. For demand deposits and deposits with no defined maturity, the fair value is determined to be the amount payable on demand. The value of customer relationships has not been taken into account. Deposits and loans received are classified as Level 2 in the fair value hierarchy since the parameters used in valuation are market observable.
- The majority of interest-bearing borrowings carry floating interest rates which are linked to market and repriced regularly. As such, the management believes that their carrying values approximate their fair values.

47 Financial risk management policies

This section provides details of the Group's exposure to risks and describes the methods used by the management to identify, measure and manage risks. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and equity price risk.

An integrated system of risk management has been established at the Group level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Group and monitoring their implementation. With particular reference to risk taking preferences, the Group defines its risk appetite through Risk Appetite Framework (RAF), i.e. set of strategic key limits ensuring stability of the Group in the upcoming period and beyond.

Accepted management principles of risk management have been implemented in all subsidiaries.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk

The Group is subject to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Group deals with counterparties of good credit standing, and when appropriate, obtains collateral.

The Group's primary credit risk exposure arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the statement of financial position. In addition, the Group is exposed to off-balance-sheet credit risk through commitments to extend credit and guarantees issued – as disclosed in Note 38 Provisions.

Lending commitments, including those based on guarantees issued by the Group that are contingent upon customers maintaining specific standards (including the solvency position of customers not worsening), represent liabilities that can be revoked, Irrevocable liabilities are based on undrawn but approved loans and approved overdrafts because these liabilities are the result of terms determined by loan contracts.

Guarantees and approved letters of credit that commit the Group to make payments on behalf of customers in the event of a specific act carry the same credit risk as loans. Standby letters of credit, which represent written guarantees of the Group in a client's name such that a third party can withdraw funds up to the preapproved limit, are covered by collateral, being the goods for which they were issued. The credit risk for this type of product is significantly lower than for direct loans.

Exposure to credit risk has been managed in accordance with the Group's policies and with the regulatory requirements of the Croatian National Bank. Credit exposures to portfolios and individual group exposures are reviewed on a regular basis against the limits set. Breaches are reported to the appropriate bodies and personnel within the Bank authorised to approve them. Any substantial increases in credit exposure are authorised by the Credit Committee. The Credit Risk Governance Committee monitors changes in the credit-worthiness of credit exposures and reviews them for any proposed expected credit losses. Credit risk assessment is continuously monitored and reported, thus enabling an early identification of increase in credit risk or default in the credit portfolio. The Group continually applies prudent methods and models used in the process of credit risk assessment.

The Group is also continuously developing internal models compliant with an internal ratings-based approach ("IRB"), as prescribed by the Capital Requirement Regulation (EU Regulation 575/2013) and supplementing legislation, in order to quantify:

- default risk expressed in terms of internal rating which is periodically assigned to corporate and retail customers and quantified as probability of default (PD models);
- loss given default as an estimate of potential losses in the event of default, given the characteristics of the transaction and present collateral (LGD models).

Internal models are deeply embedded into credit processes and underwriting policies where they determine characteristics of the transaction such as lending limit, required collateral and price as well as an appropriate decision level within an internal scheme of delegation of powers. Furthermore, internal models are also used for calculation of an adequate level of internal capital (ICAAP) and within the stress testing framework.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

For the purpose of measuring the Expected Credit Loss, the Group aligned its macroeconomic forecasts with the indications. The table below shows the scenarios generated and used to measure ECL.

Macroeconomic indicator	Favourable scenario				Baseline scenario				Adverse scenario			
	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
CPI y/y (average) %	10.7	6.4	2.8	2.3	10.5	6.1	2.2	2.0	10.5	5.7	1.9	1.3
Real GDP y/y %	8.6	3.3	4.5	3.4	5.9	2.3	3.4	2.8	5.6	0.2	2.9	0.3
Euribor 6M (average) %	0.6	3.0	3.0	3.2	0.6	2.6	2.3	2.2	0.6	2.4	2.0	2.0
Personal expenditure (%)	7.5	3.0	4.1	3.1	5.4	1.9	3.0	2.5	4.6	-0.9	1.8	(0.3)
Wages	7.7	5.4	3.9	3.5	7.5	5.0	3.1	3.1	7.5	4.4	2.6	2.4

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Maximum exposure to credit risk

The table below presents the maximum exposure to credit risk for the components of the statement of financial position, The maximum exposure is presented net of impairment allowance before the effect of mitigation through collateral agreements.

(in HRK million)

	Notes	GROUP 2022	GROUP 2021	BANK 2022	BANK 2021
Cash and current accounts with banks (excluding cash in hand)	18	38,703	31,153	32,624	24,811
Balances with the Croatian National bank	19	2,976	4,533	2,976	4,533
Financial assets held for trading (excluding equities and investments in funds)	21	545	1,135	545	1,135
Derivative financial assets	22	652	43	297	37
Fair value changes of the hedged items in portfolio hedge of interest rate risk	22	(493)	31	(295)	(3)
Loans and advances to banks	24	7,851	6,230	5,571	4,659
Loans and advances to customers	25	83,919	78,679	57,979	53,835
Investment securities (w/o equities)	20	12,200	11,501	9,938	9,387
Other assets (excluding prepaid expenses, foreclosed assets, receivables in course of collection, advance payments and receivables from tax authority (excluding income tax))	31	102	37	94	47
Total		**146,455**	**133,342**	**109,729**	**98,441**
Contingent liabilities and commitments	39	28,077	24,036	21,549	18,122
Total credit risk exposure		**174,532**	**157,378**	**131,278**	**116,563**

Where financial instruments are recorded at fair value, the amounts presented above represent the credit risk exposure at the reporting date but not the maximum risk exposure that could arise in the future as a result of changes in fair values.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Collateral held and other credit enhancements

In terms of credit risk mitigation, the Group's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. The Group approves a facility if there are two independent and viable repayment sources – cash flows generated by the borrower's activity and security instruments/collateral. The main types of collateral obtained are as follows:

- cash deposit for which the agreement stipulates that the Bank shall have the right to use the cash deposit for debt recovery and that the depositor may not use this deposit until the final settlement of all obligations under the approved facility;
- guarantee of the Government of the Republic of Croatia;
- pledge of securities issued by the Republic of Croatia or the Croatian National Bank;
- irrevocable guarantee or super guarantee issued by a domestic or foreign bank with adequate credit rating with the conditions of "payable on first demand" or "without objections" or similar;
- credit insurance policy issued by the Croatian Bank for Reconstruction and Development;
- credit insurance policy issued by an appropriate insurance company in accordance with the internal regulations of the Bank;
- pledge of units in investment funds managed by Eurizon;
- mortgage/lien/fiduciary transfer of ownership of property, movable property or securities of other issuers.

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

The majority of housing loans are secured by mortgages over residential property. A significant part of the corporate portfolio is secured by mortgages over different types of commercial property.

The Republic of Croatia has in the past issued guarantees for the repayment of loans and advances to qualifying customers in certain key industries which were provided for by the state budget. In addition, the Republic of Croatia has issued guarantees for a certain number of the Bank's loans and off-balance-sheet credit risks.

The support and guarantee of the Republic of Croatia was taken into consideration when determining the level of impairment loss required against loans and off-balance-sheet credit risk exposure to certain entities.

Total Group balance-sheet and off-balance-sheet credit risks guaranteed by the Republic of Croatia or repayable from the state budget amounted to HRK 5,854 million (2021: HRK 4,540 million). Exposure to Croatian municipalities is included in the above analysis, The following table sets out the appraised value of collateral for loans and receivables to customers.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Collateral held and other credit enhancements (continued)

Analysis by type of collateral for loans and advances to customers at amortized cost

(in HRK million)

Group	2022 Net loans	2022 Appraised value of collateral	2021 Net loans	2021 Appraised value of collateral
Residential Real Estate	21,607	40,537	18,853	38,883
Commercial Real Estate	11,130	35,001	7,920	28,764
Other Real Estate	1,818	7,342	1,963	8,351
Real Estate	**34,555**	**82,880**	**28,736**	**75,998**
First Rate Guarantees	7,174	12,901	6,703	11,052
Central Government	5,957	7,628	5,237	7,535
Local Government	212	229	184	231
Banks	1,005	5,044	1,282	3,286
Other Guarantees	1,924	3,725	1,982	3,963
Guarantees	**9,098**	**16,626**	**8,685**	**15,015**
Loan Insurance	1,213	1,507	1,182	1,440
Life Insurance	1,870	1,997	1,382	2,002
Deposits	429	989	334	436
Shares	35	62	32	54
Bonds	-	-	399	434
Funds	-	-	1	1
Other	1,536	3,587	1,269	3,190
Other Collaterals	**5,083**	**8,142**	**4,599**	**7,557**
Total	**48,736**	**107,648**	**42,020**	**98,570**
Unsecured loans	35,258	-	36,749	-
Total	**83,994**	**107,648**	**78,769**	**98,570**

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

(in HRK million)

Bank	2022 Net loans	2022 Appraised value of collateral	2021 Net loans	2021 Appraised value of collateral
Residential Real Estate	14,649	26,853	13,431	25,309
Commercial Real Estate	6,411	15,712	5,311	13,825
Other Real Estate	942	2,042	1,071	2,258
Real Estate	**22,002**	**44,607**	**19,813**	**41,392**
First Rate Guarantees	5,748	6,048	4,459	4,549
Central Government	5,442	5,715	4,191	4,226
Local Government	211	229	183	230
Banks	95	104	85	93
Other Guarantees	834	1,060	953	1,317
Guarantees	**6,582**	**7,108**	**5,412**	**5,866**
Loan Insurance	338	574	328	549
Life Insurance	334	392	408	443
Deposits	370	909	234	316
Shares	26	40	21	27
Bonds	-	-	399	434
Funds	-	-	1	1
Other	1,135	2,538	785	1,891
Other Collaterals	**2,203**	**4,453**	**2,176**	**3,661**
Total	**30,787**	**56,168**	**27,401**	**50,919**
Unsecured loans	27,230	-	26,478	-
Total	**58,017**	**56,168**	**53,879**	**50,919**

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Refinanced loans

Loan refinancing is done for clients where the focus of the business relationship has shifted from regular payment to mitigating losses on lending exposure at a stage when legal action for mitigating losses is not yet needed. The goal is timely identification of clients where refinancing would enable them to continue in business and to mitigate or prevent further losses for the Group.

Refinancing activities are based on cooperation with other organisational parts of the Group, which identify clients/exposures that are the subject of refinancing and include: supporting of sales staff in defining the appropriate refinancing strategy, analysing refinancing applications, suggesting measures and making recommendations for refinancing, monitoring progress, monitoring the portfolio, assessing the level of impairment and the Group's proposing measures that would improve collateral coverage in order to strengthen its position in the collection of receivables.

All restructurings and rescheduling have been marked with forbearance flag in line with relevant regulation. The table below includes Stage 2 and 3 assets that were modified and, therefore, treated as forborne during the period, with the related modification effect suffered by the Bank and the Group.

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Amortised cost of financial assets modified during the period	846	697	779	518
Net modification gain/(loss)	29	(9)	29	(3)

The following tables provide a summary of the Bank's and the Group's forborne assets.

(in HRK million)

Group 2022	Performing			Non - performing		
	Modification	Refinancing	**Total**	Modification	Refinancing	**Total**
Loans and advances						
Non-financial corporations	555	22	**577**	430	23	**453**
Households	92	119	**211**	127	294	**421**

(in HRK million)

Group 2021	Performing			Non - performing		
	Modification	Refinancing	**Total**	Modification	Refinancing	**Total**
Loans and advances						
General governments	1	-	**1**	-	-	**-**
Non-financial corporations	337	21	**358**	457	77	**534**
Households	85	145	**230**	117	410	**527**

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Refinanced loans (continued)

(in HRK million)

Bank 2022	Performing			Non - performing		
	Modification	Refinancing	**Total**	Modification	Refinancing	**Total**
Loans and advances						
Non-financial corporations	439	6	**445**	371	19	**390**
Households	27	100	**127**	98	249	**347**

(in HRK million)

Bank 2021	Performing			Non - performing		
	Modification	Refinancing	**Total**	Modification	Refinancing	**Total**
Loans and advances						
General governments	1	-	**1**	-	-	**-**
Non-financial corporations	196	6	**202**	418	77	**496**
Households	40	96	**136**	94	360	**454**

The following tables provide a summary of the Bank's and the Group's forborne assets divided by gross exposure and ECL allowance.

(in HRK million)

Group 2022	Gross amount of forborne exposures			ECL allowance		
	Performing	Non-performing	Total	Performing	Non-performing	Total
Loans and advances						
Non-financial corporations	578	453	**1,031**	(86)	(236)	**(322)**
Households	211	420	**631**	(26)	(240)	**(266)**

(in HRK million)

Group 2021	Gross amount of forborne exposures			ECL allowance		
	Performing	Non-performing	Total	Performing	Non-performing	Total
Loans and advances						
Non-financial corporations	358	534	**892**	(51)	(315)	**(366)**
Households	230	527	**757**	(36)	(247)	**(283)**

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Refinanced loans (continued)

(in HRK million)

Bank 2022	Gross amount of forborne exposures			ECL allowance		
	Performing	Non-performing	Total	Performing	Non-performing	Total
Loans and advances						
Non-financial corporations	446	390	**836**	(71)	(201)	**(272)**
Households	126	347	**473**	(9)	(184)	**(193)**

(in HRK million)

Bank 2021	Gross amount of forborne exposures			ECL allowance		
	Performing	Non-performing	Total	Performing	Non-performing	Total
Loans and advances						
Non-financial corporations	202	496	**698**	(32)	(277)	**(309)**
Households	136	454	**590**	(9)	(190)	**(199)**

The Group is also continuously improving collection and workout processes (problem loan management framework) by introducing new application support boosting process efficiency and developing new collection strategies in the form of tailor-made products and offers to retail customers, refinancing standards and support for corporate clients, and finally sale of assets where further collection is deemed immaterial and therefore not appropriate/efficient to be executed within the Group.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Credit risk of financial assets and loan commitments and financial guarantee contracts is presented using internal classifications for the credit risk.

The Group internally classifies the loan exposures into the following risk categories:

- Standard monitoring: the client is timely servicing its liabilities and there and the exposure is not classified as credit-impaired;
- Special monitoring: clients are analysed in detail within Proactive Credit Management (PCEM) office where individual client's strategies have been defined, implemented and their execution is closely monitored, In addition to corporate clients, Bank adopted monitoring of retail clients on portfolio level within PCEM office;
- Doubtful: exposures to borrowers being effectively insolvent (although not yet legally) or in comparable status, regardless of any loss forecasts made by the Group;
- Unlikely to pay: exposures to borrowers which are experiencing financial or economic difficulties that are expected to be overcome in a reasonable period of time;
- Past due impaired: exposures other than those classified as unlikely to pay or doubtful that are past due for more than 90 days on a continuous basis above the established threshold.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in HRK million)

Group 2022	12-month ECL	Life-time ECL not credit - impaired	Life-time ECL credit - impaired	Purchased credit – impaired	Total
Loans and advances to banks at amortised cost					
Standard monitoring	7,853	-	-	-	**7,853**
Doubtful	-	-	4	-	**4**
Loss allowance	(2)	-	(4)	**-**	**(6)**
Carrying amount	**7,851**	**-**	**-**	**-**	**7,851**
Loans and advances to customers at amortised cost					
Standard monitoring	77,826	3,233	-	23	**81,082**
Special monitoring	215	2,377	-	-	**2,592**
Past due impaired	-	-	247	-	**247**
Unlikely to pay	-	-	1,381	11	**1,392**
Doubtful	-	-	1,666	20	**1,686**
Loss allowance	(642)	(505)	(1,836)	(22)	**(3,005)**
Carrying amount	**77,399**	**5,105**	**1,458**	**32**	**83,994**
2021					
Loans and advances to banks at amortised cost					
Standard monitoring	6,231	-	-	-	**6,231**
Doubtful	-	-	4	-	**4**
Loss allowance	(1)	-	(4)	**-**	**(5)**
Carrying amount	**6,230**	**-**	**-**	**-**	**6,230**
Loans and advances to customers at amortised cost					
Standard monitoring	72,771	3,115	-	22	**75,908**
Special monitoring	-	2,274	-	-	**2,274**
Past due impaired	-	-	266	1	**267**
Unlikely to pay	-	-	1,727	18	**1,745**
Doubtful	-	-	1,500	24	**1,524**
Loss allowance	(648)	(520)	(1,758)	(23)	**(2,949)**
Carrying amount	**72,123**	**4,869**	**1,735**	**42**	**78,769**

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in HRK million)

Bank **2022**	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit – impaired	**Total**
Loans and advances to banks at amortised cost					
Standard monitoring	5,572	-	-	-	**5,572**
Doubtful	-	-	3	-	**3**
Loss allowance	(1)	-	(3)	-	**(4)**
Carrying amount	**5,571**	**-**	**-**	**-**	**5,571**
Loans and advances to customers at amortised cost					
Standard monitoring	53,269	2,295	-	23	**55,587**
Special monitoring	215	1,694	-	-	**1,909**
Past due impaired	-	-	155	-	**155**
Unlikely to pay	-	-	1,169	11	**1,180**
Doubtful	-	-	1,278	20	**1,298**
Loss allowance	(433)	(305)	(1,352)	(22)	**(2,112)**
Carrying amount	**53,051**	**3,684**	**1,250**	**32**	**58,017**
2021					
Loans and advances to banks at amortised cost					
Standard monitoring	4,660	-	-	-	**4,660**
Doubtful	-	-	3	-	**3**
Loss allowance	(1)	-	(3)	-	**(4)**
Carrying amount	**4,659**	**-**	**-**	**-**	**4,659**
Loans and advances to customers at amortised cost					
Standard monitoring	49,156	2,220	-	22	**51,398**
Special monitoring	-	1,792	-	-	**1,792**
Past due impaired	-	-	178	1	**179**
Unlikely to pay	-	-	1,454	18	**1,472**
Doubtful	-	-	1,131	24	**1,155**
Loss allowance	(441)	(365)	(1,288)	(23)	**(2,117)**
Carrying amount	**48,715**	**3,647**	**1,475**	**42**	**53,879**

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in HRK million)

Group **2022**	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	**Total**
Debt investment securities at amortised cost				
Standard monitoring	1,665	-	-	**1,665**
Special monitoring	-	379	-	**379**
Loss allowance	(1)	(29)	-	**(30)**
Carrying amount	**1,664**	**350**	**-**	**2,014**
Debt investment securities at FVOCI				
Standard monitoring	10,191	-	-	**10,191**
Loss allowance	(5)	-	-	**(5)**
Carrying amount	**10,186**	**-**	**-**	**10,186**
Loan commitments				
Standard monitoring	21,614	362	-	**21,976**
Special monitoring	56	149	-	**205**
Past due impaired	-	-	7	**7**
Unlikely to pay	1	-	77	**78**
Doubtful	-	-	10	**10**
Loss allowance	(39)	(16)	(32)	**(87)**
Carrying amount	**21,632**	**495**	**62**	**22,189**
Financial guarantee contracts				
Standard monitoring	5,317	97	-	**5,414**
Special monitoring	21	126	-	**147**
Unlikely to pay	-	-	188	**188**
Doubtful	-	-	52	**52**
Loss allowance	(12)	(8)	(125)	**(145)**
Carrying amount	**5,326**	**215**	**115**	**5,656**

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in HRK million)

Group **2021**	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	**Total**
Debt investment securities at amortised cost				
Standard monitoring	1,669	-	-	**1,669**
Special monitoring	-	360	-	**360**
Loss allowance	(3)	(44)	-	**(47)**
Carrying amount	**1,666**	**316**	**-**	**1,982**
Debt investment securities at FVOCI				
Standard monitoring	9,533	-	-	**9,533**
Loss allowance	(14)	-	-	**(14)**
Carrying amount	**9,519**	**-**	**-**	**9,519**
Loan commitments				
Standard monitoring	18,373	279	-	**18,652**
Special monitoring	1	202	-	**203**
Past due impaired	-	-	6	**6**
Unlikely to pay	-	-	56	**56**
Doubtful	-	-	11	**11**
Loss allowance	(31)	(12)	(26)	**(69)**
Carrying amount	**18,343**	**469**	**47**	**18,859**
Financial guarantee contracts				
Standard monitoring	4,530	109	-	**4,639**
Special monitoring	-	152	-	**152**
Past due impaired	-	-	-	**-**
Unlikely to pay	-	-	232	**232**
Doubtful	-	-	85	**85**
Loss allowance	(13)	(6)	(162)	**(181)**
Carrying amount	**4,517**	**255**	**155**	**4,927**

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in HRK million)

Bank **2022**	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	**Total**
Debt investment securities at amortised cost				
Standard monitoring	1,665	-	-	**1,665**
Special monitoring	-	379	-	**379**
Loss allowance	(1)	(29)	-	**(30)**
Carrying amount	**1,664**	**350**	**-**	**2,014**
Debt investment securities at FVOCI				
Standard monitoring	7,929	-	-	**7,929**
Loss allowance	(5)	-	-	**(5)**
Carrying amount	**7,924**	**-**	**-**	**7,924**
Loan commitments				
Standard monitoring	17,087	218	-	**17,305**
Special monitoring	56	149	-	**205**
Past due impaired	-	-	5	**5**
Unlikely to pay	-	-	64	**64**
Doubtful	-	-	9	**9**
Loss allowance	(24)	(10)	(31)	**(65)**
Carrying amount	**17,119**	**357**	**47**	**17,523**
Financial guarantee contracts				
Standard monitoring	3,538	37	-	**3,575**
Special monitoring	21	126	-	**147**
Past due impaired	-	-	-	**-**
Unlikely to pay	-	-	187	**187**
Doubtful	-	-	52	**52**
Loss allowance	(4)	(6)	(119)	**(129)**
Carrying amount	**3,555**	**157**	**120**	**3,832**

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Credit quality analysis (continued)

(in HRK million)

Bank **2021**	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	**Total**
Debt investment securities at amortised cost				
Standard monitoring	1,645	-	-	**1,645**
Special monitoring	-	360	-	**360**
Loss allowance	(3)	(44)	-	**(47)**
Carrying amount	**1,642**	**316**	**-**	**1,958**
Debt investment securities at FVOCI				
Standard monitoring	7,443	-	-	**7,443**
Loss allowance	(14)			**(14)**
Carrying amount	**7,429**	**-**	**-**	**7,429**
Loan commitments				
Standard monitoring	13,974	193	-	**14,167**
Special monitoring	1	202	-	**203**
Past due impaired	-	-	4	**4**
Unlikely to pay	-	-	49	**49**
Doubtful	-	-	9	**9**
Loss allowance	(26)	(17)	(24)	**(67)**
Carrying amount	**13,949**	**378**	**38**	**14,365**
Financial guarantee contracts				
Standard monitoring	3,213	27	-	**3,240**
Special monitoring	-	152	-	**152**
Past due impaired	-	-	-	**-**
Unlikely to pay	-	-	213	**213**
Doubtful	-	-	85	**85**
Loss allowance	(3)	(6)	(151)	**(160)**
Carrying amount	**3,210**	**173**	**147**	**3,530**

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information. Criteria for determining significant increase in credit risk are defined for the purpose of proper allocation of performing exposures in “Stage 1” or “Stage 2”.

Regarding the monitoring of credit quality, and in line with the standard and guidelines of the supervisory body on the way of applying accounting standards for larger institutions, efforts have been made in conducting the timely credit quality analysis of each individual credit relationship (both in the form of card exposure and in the form of credit exposure) for the purpose of identifying any “significant deterioration” from the date of initial recognition and the consequent need for classification in Stage 2, as well as the conditions for returning to Stage 1 from Stage 2. In other words, the elected choice, for each case separately and for each reporting date, implies a comparison of the credit quality of the financial instrument at the time of valuation and at the time of issuance or purchase with the purpose of determining whether the criteria for classification to Stage 2 have been met.

Credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's modelling, one of the following criteria is met:

- Default probability change in relation to the initial recognition of the financial instrument, It is therefore an assessment implemented by adopting the "relative" criterion;
- Clients that are under special monitoring treatment (PCEM);
- Eventual presence of due amount which remains overdue over 30 days (based on materiality threshold);
- Existence of “forbearance” measures;
- Finally, certain indicators of the internal credit risk tracking system are considered for the purpose of transition between “Stages" where appropriate.

Recognition of significant increase in credit risk since origination is also assessed based on the number of rating downgrades since origination. The number of downgrades required for Stage 2 classification is determined based on the Internal credit rating at origination and distance from the low credit quality rating grade.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment

Forward looking information

The measurement of the financial assets also reflects the best estimate of the effects of future conditions and in particular the economic conditions that affect the forward-looking PDs and LGDs. In order to take into account, the forward looking data and the macroeconomic scenarios that the Group could encounter, it was decided to adopt, as further detailed in the text below, the so-called „Most likely scenario + add on" approach.

The inclusion of "forward looking" factors, particularly macroeconomic scenarios, is absolutely important element for estimating expected losses. From a methodological point of view, several possible alternative approaches were analysed to take these elements into account. In relation to different options considered, the Group has decided to adopt the approach representing the so-called "Most likely scenario + Add-on" which, for the purpose of calculating expected credit loss (ECL) and "stage assignment", implies taking into account the loss by credits set for the baseline scenario, with the attributed add-on aimed at reflecting the effects resulting from the possibility of the realisation of alternative of macroeconomic scenarios.

According to this approach, the macroeconomic conditioning of PD and LGD is carried out through a baseline scenario ("Most Likely") and then corrected with an Add-On to include any differences compared to downside and upside scenarios. If the overall impact of the Add-On on the risk parameters is positive, the decision has been made to neutralise the effect for both staging and ECL calculation purposes. The macroeconomic scenario is determined by the Group based on adjusted publicly available information.

Modification of financial asset

In some cases, during the lifetime of these financial assets, and of loans in particular, the original contractual conditions may be subsequently modified by the parties to the contract. When the contractual clauses are subject to change during the lifetime of an instrument, it is necessary to verify whether the original asset should continue to be recognised in the balance sheet or whether, instead, the original instrument needs to be derecognised and a new financial instrument needs to be recognised. In general, changes to a financial asset lead to its derecognition and the recognition of a new asset when they are "substantial". The assessment of the "substantial nature" of the change must be made using both qualitative and quantitative information.

The qualitative and quantitative analyses aimed at defining the "substantial nature" of contractual changes made to a financial asset must therefore consider:

- the purposes for which the changes were made: e.g. renegotiations for commercial reasons and forbearance measures due to financial difficulties of the counterparty:
    - the former, aimed at "retaining" the customer, involve a borrower that is not in financial difficulty,
    - the latter, carried out for "reasons of credit risk" (forbearance measures), relate to the bank's attempt to maximise the recovery of the cash flows of the original loan.
- the presence of specific triggers that affect the contractual characteristics and/or cash flows of the financial instrument.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables: probability of default (PD), loss given default (LGD) and exposure at default (EAD), while for stage 2 exposures remaining maturity and discounting rate should be given as well.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD, Lifetime ECL (stage 2 exposures) is defined as the expected present value measure of losses that arise if a borrower defaults on their obligation throughout the life of financial instrument. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD properly discounted to the reporting date.

The following definitions apply for PD, LGD and EAD:

- PD (Probability of Default): likelihood of migrating from performing to non-performing status over the period of one year, The PD factor is typically quantified through the rating, In the Group, the PD values are derived from internal rating models where available.
- LGD (Loss Given Default): percentage loss in the event of default, LGD rates are derived from internally developed, collection models.
- EAD (Exposure At Default) or credit equivalent: amount of the exposure at the time of default.

The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

In November 2022 the Bank and the Group made regular annual re-estimation of overall IFRS9 parameters following parent bank's methodological approach, out of which the following might be outlined: 1) update of historical time series by inclusion of COVID period; 2) inclusion of new macroeconomic scenarios via internal macro models or via EBA tool; 3) implementation of new Retail LGD models and 4) upgrade of sovereign rating based on parent company model which anticipated improvement in sovereign risk driven by EMU accession.

In addition, recognizing objective difficulties in forming forward looking expectations in this particular year, the Bank has decided to implement management overlays as additional conservative elements in calculation of IFRS 9 allowances at the end of 2022 (considered as post-model management adjustments).

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

The following tables present reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

(in HRK million)

Group					2022					2021
	12-month ECL	Lifetime ECL not credit - im-paired	Lifetime ECL credit - im-paired	Pur-chased credit - im-paired	**Total**	12-month ECL	Lifetime ECL not credit - im-paired	Lifetime ECL credit - im-paired	Pur-chased credit - im-paired	**Total**
Loans and advances to customers at amortised cost										
Balance at 1 January	**653**	**529**	**1,741**	**26**	**2,949**	**611**	**534**	**2,429**	**33**	**3,607**
Transfer to 12-month ECL	141	(112)	(29)	-	**-**	145	(104)	(41)	-	**-**
Transfer to lifetime ECL not credit-impaired	(20)	87	(67)	-	**-**	(28)	75	(47)	-	**-**
Transfer to lifetime ECL credit – impaired	(6)	(71)	77	-	**-**	(13)	(66)	79	-	**-**
Net remeasurement of loss allowance	(21)	198	345	(1)	**521**	(13)	173	(151)	(6)	**3**
Financial assets that have been derecognised	(61)	(76)	(300)	-	**(437)**	(65)	(90)	(387)	(1)	**(543)**
Write-offs	-	-	(37)	-	**(37)**	-	-	(169)	-	**(169)**
Changes in models/risk parameters	(26)	(42)	77	-	**9**	17	8	32	-	**57**
Foreign exchange and other movements	-	-	-	-	**-**	(1)	(1)	(4)	-	**(6)**
Balance at 31 December	**660**	**513**	**1,807**	**25**	**3,005**	**653**	**529**	**1,741**	**26**	**2,949**

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

(in HRK million)

Bank	2022					2021				
	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit - impaired	**Total**	12-month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Purchased credit - impaired	**Total**
Loans and advances to customers at amortised cost										
Balance at 1 January	**442**	**364**	**1,285**	**26**	**2,117**	**384**	**392**	**1,866**	**33**	**2,675**
Merger of PBZ Stambena Štedionica d.d.	4	7	1	-	**12**	**-**	**-**	**-**	**-**	**-**
Transfer to 12-month ECL	95	(73)	(22)	-	**-**	102	(80)	(22)	-	**-**
Transfer to lifetime ECL not credit-impaired	(10)	66	(56)	-	**-**	(18)	48	(30)	-	**-**
Transfer to lifetime ECL credit – impaired	(4)	(50)	54		**-**	(8)	(49)	57	-	**-**
Net remeasurement of loss allowance	(59)	94	230	(1)	**264**	3	123	(286)	(6)	**(166)**
Financial assets that have been derecognised	(27)	(58)	(202)	-	**(287)**	(36)	(77)	(166)	(1)	**(280)**
Write-offs	-	-	(26)	-	**(26)**	-	-	(161)	-	**(161)**
Changes in models/risk parameters	4	(43)	71	-	**32**	16	8	31	-	**55**
Foreign exchange and other movements	-	-	-	-	**-**	(1)	(1)	(4)	-	**(6)**
Balance at 31 December	**445**	**307**	**1,335**	**25**	**2,112**	**442**	**364**	**1,285**	**26**	**2,117**

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

(in HRK million)

Group		
2022	12-month ECL	**Total**
Debt investment securities at FVOCI		
Balance at 1 January	**14**	**14**
Net remeasurement of loss allowance	(1)	**(1)**
New financial assets originated or purchased	4	**4**
Financial assets that have been derecognised	(12)	**(12)**
Balance at 31 December	**5**	**5**
2021		
Debt investment securities at FVOCI		
Balance at 1 January	**10**	**10**
Net remeasurement of loss allowance	1	**1**
New financial assets originated or purchased	11	**11**
Financial assets that have been derecognised	(8)	**(8)**
Balance at 31 December	**14**	**14**

(in HRK million)

Bank		
2022	12-month ECL	**Total**
Debt investment securities at FVOCI		
Balance at 1 January	**14**	**14**
Net remeasurement of loss allowance	(1)	**(1)**
New financial assets originated or purchased	4	**4**
Financial assets that have been derecognised	(12)	**(12)**
Balance at 31 December	**5**	**5**
2021		
Debt investment securities at FVOCI		
Balance at 1 January	**10**	**10**
Net remeasurement of loss allowance	1	**1**
New financial assets originated or purchased	11	**11**
Financial assets that have been derecognised	(8)	**(8)**
Balance at 31 December	**14**	**14**

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Financial assets at fair value through profit or loss per external risk classification

The table below provides information of the credit quality of financial assets at fair value through profit or loss (excluding equity securities and units in investment funds); using external ratings of Fitch Ratings or Standard & Poor's if Fitch Ratings was not available:

(in HRK million)

	GROUP 2022	2021	**BANK** 2022	2021
Government bonds and treasury bills				
BB+	-	1,135	-	1,135
BBB	545	-	545	-
Total	**545**	**1,135**	**545**	**1,135**

Offsetting financial assets and financial liabilities

The disclosures set out in the table on the next page include financial assets and financial liabilities that are offset in the Group's statement of financial position; or are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the tables unless they are offset in the statement of financial position.

The Group receives and gives collateral in the form of cash and marketable securities in respect of the following transactions:

- derivatives;
- sale and repurchase, and reverse sale and repurchase agreements and
- securities lending and borrowing.

The disclosures set out in the table on the next page include financial assets and financial liabilities that are subject to offsetting, irrespective of whether they are offset in the statement of financial position. These include derivative clearing agreements, sale and repurchase agreements and reverse sale and repurchase agreements.

Derivative financial instruments

Derivative financial instruments include foreign exchange forward contracts, foreign exchange swaps and embedded derivatives in contracts with a single-sided currency clause. All derivatives are classified as held for trading and carried as assets when their fair value is positive and as liabilities when negative.

At 31 December 2022 derivative financial instruments with positive fair value amounted to HRK 14 million (31 December 2021: HRK 36 million) for the Group and HRK 2 million (31 December 2021: HRK 34 million) for the Bank, while derivative financial instruments with negative fair value amounted to HRK 19 million (31 December 2021: HRK 3 million) for the Group and HRK 8 million (31 December 2021: HRK 1 million) for the Bank.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

a) Credit risk (continued)

Offsetting financial assets and financial liabilities (continued)

Sale and repurchase agreement, and reverse sale and repurchase transaction

Sale and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it at a fixed price on a future date. The Group continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all the risks and rewards of ownership. The cash consideration received is recognised as a financial asset and a financial liability is recognised for the obligation to repay at the repurchase price, classified as interest-bearing borrowings.

Reverse sale and repurchase agreements are transactions in which the Group purchases a security and simultaneously agrees to sell it at a fixed price on a future date. The Group holds collateral in the form of marketable securities in respect of loans given. Sale and repurchase agreements as well as reverse sale and repurchase agreements give the Group possibility for offsetting on a net basis, in case of default of any counterparty.

The table below shows the amount of collateral accepted in respect of reverse sale and repurchase agreements and given in respect of sale and repurchase agreements. Collateral accepted and given includes government issued T-bills and Bonds.

(in HRK million)

	GROUP		**BANK**	
	2022	2021	2022	2021
Receivables from reverse sale and repurchase agreements related to:	**461**	**444**	**461**	**431**
- loans and advances to banks	*394*	*32*	*394*	*32*
- loans and advances to customers	*67*	*412*	*67*	*399*
Fair value of collateral accepted in respect of the above	510	491	510	475
Payables under sale and repurchase agreements	**1,007**	**1,558**	**1,007**	**1,005**
- interest-bearing borrowings	1,007	*1,558*	1,007	*1,005*
Carrying amount of collateral provided in respect of the above relating to:	**1,156**	1,849	**1,156**	1,100
- financial assets designated at fair value through other comprehensive income	1,156	*1,849*	1,156	*1,100*

b) Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at the appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, interest-bearing borrowings and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funding. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy. In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

b) Liquidity risk (continued)

The Group adjusts its business activities to manage liquidity risk according to regulatory and internal policies for the maintenance of liquidity reserves, matching of liabilities and assets, control of limits, preferred liquidity ratios and contingency planning procedures. Needs for short-term liquidity are planned every month for a period of one month and are controlled and maintained daily. The Treasury department manages liquidity reserves daily, ensuring also the fulfilment of all customer needs.

Apart from external requirements that include regulatory limits prescribed by the CNB (obligatory reserve with the CNB, minimum required amount of foreign currency claims and others), the Bank has defined a set of internal limits for measuring and monitoring liquidity risk exposure. Thus, the process of liquidity monitoring and control is defined through the following activities and indicators:

- monitoring of liquidity reserve levels;
- Liquidity coverage ratio;
- Net stable funding ratio;
- analysis of the Bank's funding structure;
- stress test;
- survival period; money market debt exposure towards the overall deposit base and other funding concentration ratios;
- cash flow projections;
- liquidity contingency plan indicators.

For the purpose of the Group's liquidity risk exposure reporting, the following four types of signals are defined:

- Hard limit - breach of a prescribed limit demands action in accordance with the Bank’s liquidity risk management guidelines;
- Early warning limit - breach of a prescribed early warning limit demands action in accordance with the Bank’s liquidity risk management guidelines;
- Threshold of attention and internal early warning limit - breach of a threshold acts as an early warning signal, demanding additional attention and action if decided by responsible persons;
- Information on various measures and indicators - serving as information to the relevant decision-making bodies.

In August 2022, CNB Decision on minimum foreign currency claims was amended, requiring banks to maintain a minimum of 8,5% of foreign currency liabilities in short-term assets (as of 31 December 2021: minimum of 17%), The actual figures were as follows:

2022	%	2021	%
"8,5% ratio" (at year end)	28.26	"17% ratio" (at year end)	33.36
Average	26.10	Average	35.58
Maximum	28.26	Maximum	36.74
Minimum	23.75	Minimum	33.36

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

b) Liquidity risk (continued)

A maturity analysis of financial liabilities according to the remaining contractual maturity as well as an analysis of financial assets and financial liabilities according to their expected maturities are presented in Note 51 Liquidity risk.

As part of the management of liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents and debt securities for which there is an active and liquid market so that they can be readily sold to meet liquidity requirements. In addition, the Group maintains agreed lines of credit with banks and holds unencumbered assets eligible for use as collateral.

c) Market risk

All trading instruments are subject to market risk, which is the risk that changes in market prices, such as interest rates, equity securities prices, foreign exchange rates and credit spreads (not relating to changes in the obligator's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The Group manages and controls market risk exposures within acceptable parameters to ensure the Group's solvency while optimising the return on risk.

Market risk limits are defined based on the Group strategy and requirements, in accordance with senior management risk policy indicators.

Market risk measurement techniques

Exposure to market risk is formally managed by risk limits which are approved by senior management and revised at least annually. The Group applies the following market risk management techniques: VaR ("Value at Risk"), issuer limits, positional (nominal) exposure, PV01 (the present value of the impact of a 1 bps movement in interest rate) and stop loss limits. The exposure figures and limit utilisations are delivered daily to the senior management and lower management levels within the Treasury & ALM Department, which enables informed decision-making at all management and operational levels.

The Group follows market risk measurement and management principles set in cooperation with the Intesa Sanpaolo Group. VaR methodology is used as a basis for top management reporting on the Group's market risk exposure. The Group uses historical simulation (as the Group standard VaR methodology) and RiskWatch (as a Group wide VaR calculation engine), and other supporting activities (pricing, back-testing, stress testing) to ensure compliance with Intesa Sanpaolo Group standards.

The major elements of the market risk management framework include:

- VaR Methodology and Backtesting;
- Sensitivity;
- Fair Value Measurement;
- Level measurements (nominal amount, open position, market value etc);
- Profit and loss indicators (P&L);
- Stress testing and scenario analysis;
- Monitoring and measurement of counterparty and delivery risk exposure.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

c) Market risk (continued)

VaR

The principal tool used to measure and control market risk exposure within the Group's trading portfolio is value-at-risk (VaR). VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) given an adverse movement with a specified probability (confidence level). The model used by the Group is based upon a 99% confidence level, assumes a 1 day holding period and takes into account 250 historical scenarios. The use of a 99% confidence level means that losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

The Group uses VaR to measure the following market risks:

- General and specific interest rate risk in trading book;
- equity risk in trading book;
- foreign exchange risk on the statement of financial position level (both trading and banking book).

(in HRK thousand)

Group	Equity VaR	Interest rate VaR	Foreign ex-change VaR	Effects of corre-lation	**Total**
2022 – 3 January	-	1,406	557	(567)	**1,396**
2022 – 30 December	-	2,775	828	(444)	**3,159**
2022 – Average daily	-	3,451	1,872	(1,356)	**3,967**
2022 – Lowest	-	1,406	557	(567)	**1,396**
2022 – Highest	-	4,146	4,012	(2,128)	**6,030**

Note: historical simulation used for VaR calculations, lowest and highest amounts refer to Total VaR, while interest rate, foreign exchange and correlation effects are expressed as contributions in lowest/highest Total VaR,

(in HRK thousand)

Group	Equity VaR	Interest rate VaR	Foreign ex-change VaR	Effects of corre-lation	**Total**
2021 – 4 January	-	1,809	266	(22)	**2,053**
2021 – 31 December	-	1,403	735	(658)	**1,480**
2021 – Average daily	-	1,749	1,399	(657)	**2,491**
2021 – Lowest	-	1,402	720	(781)	**1,341**
2021 – Highest	-	3,278	5,338	(2,112)	**6,504**

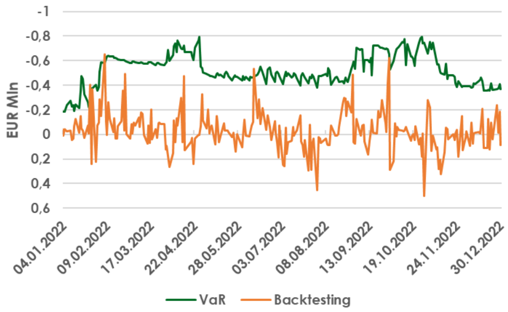
Note: historical simulation used for VaR calculations, lowest and highest amounts refer to Total VaR, while interest rate, foreign exchange and correlation effects are expressed as contributions in lowest/highest Total VaR,

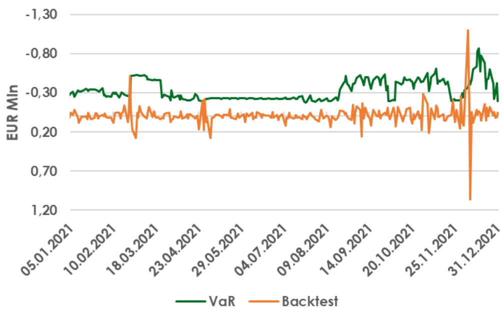
Notes to the financial statements (continued)

47 Financial risk management policies (continued)

c) Market risk (continued)

Chart below presents Bank's Total VaR movements in 2022 and 2021 and corresponding backtest values:





In accordance with confidence level of VaR model, in period of one year at least 2 backtest breaches are expected, while in 2022 three Total VaR backtest breaches were observed, two of them due to change in interest rates, while one was due to simultaneous movements of interest rates and FX exchange rates.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations:

- a one day holding period assumes that it is possible to hedge or dispose of positions within that period, This may not be the case for illiquid assets or in situations in which there is severe market illiquidity;
- a 99% confidence level does not reflect losses that may occur beyond this level;
- the use of historical data as a basis for determining the possible range of future outcomes may not cover all possible scenarios, especially those of an exceptional nature;
- the VaR measure is dependent upon the Group's position and the volatility of market prices.

To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation. As part of the validation process, the potential weaknesses of the models are analysed using statistical techniques, such as back-testing.

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies. Foreign currency exposure arises from credit, deposit-taking, investment and trading activities, It is monitored daily in accordance with regulations and internally set limits, for each currency and for the total assets and liabilities denominated in or linked to foreign currency.

The currency risk exposure is monitored at the overall statement-of-financial-position level by calculating the foreign exchange open position as prescribed by the regulatory provisions and daily through internal limits based on market risk models (foreign exchange VaR). The management of foreign exchange currency risk is supported by monitoring the sensitivity of the Group's financial assets and liabilities to fluctuation in foreign currencies exchange rates.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

c) Market risk (continued)

The tables below indicate the currencies to which the Group and the Bank had significant exposure at 31 December 2022 and 31 December 2021 and for other currencies summarize. FX open position represents net exposure in foreign currency, for both balance and off-balance sheet items, after adjustments for the effects of derivatives. The analysis calculates the effect of a reasonably possible movement of the currencies against the kuna, with all other variables held constant on the income statement. A negative amount in the table reflects a potential net reduction in the income statement, while a positive amount reflects a net potential increase.

(in HRK million)

Group

Currency	FX Open position 31 December 2022*	Scenario 2022 10% Move Up / 0%**	Scenario 2022 10% Move Down / 0%**	FX Open position 31 December 2021*	Scenario 2021 10% Move Up	Scenario 2021 10% Move Down
EUR**	**(366)**	-	-	**(902)**	(90)	90
CAD	**3**	0.3	(0.3)	**(1)**	(0.1)	0.1
USD	**(31)**	(3.1)	3.1	**3**	0.3	(0.3)
Other***	**799**	-	-	**1,347**	134.7	(134.7)

* Positive amounts represent long FX position while negative amounts represent short FX Position.

** Due to Croatian adoption of EUR as local currency as of 2023, FX risk arising from this currency was eliminated.

***„Other“ relates primarily to position in BAM currency, whose rate is fixed to EUR currency and therefore can be considered equal to EUR from FX risk perspective.

(in HRK million)

Bank

Currency	FX Open position 31 December 2022*	Scenario 2022 10% Move Up / 0%**	Scenario 2022 10% Move Down / 0%**	FX Open position 31 December 2021*	Scenario 2021 10% Move Up	Scenario 2021 10% Move Down
EUR**	**(114)**	-	-	**37**	3.7	(3.7)
CAD	**3**	0.3	(0.3)	**(1)**	(0.1)	0.1
USD	**(11)**	(1.1)	1.1	**(1)**	(0.1)	0.1
Other***	**33**	-	-	**3**	0.3	(0.3)

* Positive amounts represent long FX position while negative amounts represent short FX Position.

** Due to Croatian adoption of EUR as local currency as of 2023, FX risk arising from this currency was eliminated.

***„Other“ relates primarily to position in BAM currency, whose rate is fixed to EUR currency and therefore can be considered equal to EUR from FX risk perspective.

Currency risk is further analysed in Note 50 Currency risk.

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

c) Market risk (continued)

Interest rate risk

Interest rate risk represents the risk of decrease in assets values caused by adverse interest rate changes. Interest rate changes affect the net present value of future cash flows and consequently net interest income.

The sources of interest rate risk are:

- repricing risk - resulting from unfavourable changes in the fair value of assets and liabilities in the remaining period until the next interest rate change;
- yield curve risk - the risk of changes in shape and slope of yield curve and
- basis risk - the risk of different base rates of corresponding asset and liabilities (e.g. EURIBOR vs LIBOR).

Asset-liability risk management activities are conducted to manage the Group's sensitivity to interest rate changes. Exposure to interest rate risk is monitored and measured using repricing gap analysis, net interest income and the economic value of capital. Risk management activities are aimed at optimising net interest income and the economic value of capital, in accordance with the Group's business strategies and given market interest rate levels.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates of the Group and the Bank income statements, with all other variables held constant. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, on the interest rate sensitive non-trading financial assets and financial liabilities held at 31 December 2022. Items with floating interest rate are distributed according to next repricing date, while items with fixed interest rate according to their original maturity.

(in HRK million)

		Change at 31 December 2022			Change at 31 December 2021		
	Increase in basis points	Interest income	Interest expenses	Net interest income	Interest income	Interest expenses	Net interest income
Group	+25	214.0	(147.8)	66.2	189.5	(73.3)	116.2
	+50	427.9	(295.6)	132.4	378.9	(146.6)	232.3
Bank	+25	162.2	(126.9)	35.3	136.8	(54.5)	82.3
	+50	324.4	(253.8)	70.6	273.6	(109.0)	164.6

(in HRK million)

		Change at 31 December 2022			Change at 31 December 2021		
	Decrease in basis points	Interest income	Interest expenses	Net interest income	Interest income	Interest expenses	Net interest income
Group	-25	(215.0)	75.8	(139.2)	(187.1)	73.6	(113.5)
	-50	(430.0)	151.6	(278.4)	(374.2)	147.3	(227.0)
Bank	-25	(163.2)	54.9	(108.3)	(136.6)	51.6	(85.0)
	-50	(326.4)	109.8	(217.6)	(273.3)	103.3	(170.0)

Notes to the financial statements (continued)

47 Financial risk management policies (continued)

c) Market risk (continued)

For the purpose of interest rate risk monitoring, the Bank uses a financial representation model for sight deposits aimed at adequately reflecting behavioural features, stability of deposits, and partial and delayed reaction to market interest rate fluctuations. Under the hypothesis of increasing interest rates shock, clients could move their current accounts volumes towards more remunerating alternative forms of investments/savings. This phenomenon is represented by path dependant component (greater is the shock amount, greater is the moving of volumes) which makes key difference between measurement of net interest income in positive and negative scenarios. Interest rate risk management is further analysed in Note 48 Interest rate risk.

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment. The primary exposure to equity prices arises from equity securities held for trading and available for sale, which is not significant.

Derivative financial instruments

The Group enters into derivative financial instruments primarily to satisfy the needs and requirements of customers. Derivative financial instruments used by the Group include foreign exchange swaps and forwards, Derivatives are contracts which are individually negotiated over the counter.

d) Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputation risk. In order to measure and manage operational risk exposure at the Group level efficiently, the Group applies an internal model for operational risk exposure management in line with the prescribed Basel II framework.

The internal model for calculation of the regulatory capital requirement for operational risk is based on the Advanced Measurement Approach (AMA) and contains the following components: Loss Distribution Approach – LDA based on measure of historical losses or ex-post measured exposure (backward looking) and integrated self-diagnosis process (scenario analysis and business environment evaluation) based on subjective estimation of possible future operational losses (forward looking measure).

The AMA model has been used only for the calculation of the capital requirement for the Bank and it applies the AMA approach since 31 March 2011. For all other Group members, the Standardised Approach (TSA) has been used which calculates capital requirement as a risk weighted indicator for all regulatory business lines.

Notes to the financial statements (continued)

48 Interest rate risk

Interest rate risk is measured through change in the net present value of the portfolio in case of a shift in the reference curves.

The tables below show the sensitivity based on the change of the interest rate for one basis point through the interest rate periods which are defined by the remaining contracted maturity or the contracted interest rate period, whichever is shorter, and does not include held for trading portfolio. Positions with currency clause are represented as in reference currency. In the tables below, increases in the net present value of all future cash flows are shown as positive values, while decreases are shown as a negative value, shown over the different currencies and interest rate periods.

The basis for the sensitivity analysis of the individual position are the contracted interest rate periods. For positions which do not have interest rate periods contracted (a vista position) or can be subject to prepayment, the Group uses assumptions which reflect the real interest sensitivity of the position.

(in HRK thousands)

Group **Assets**	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 10 years	Over 10 years	**Total**
As at 31 December 2022						
HRK	-	(219)	457	(1,015)	229	**(548)**
EUR	(146)	(74)	556	(1,203)	(932)	**(1,799)**
USD	(12)	(16)	(6)	(14)	1	**(47)**
CHF	(12)	5	3	-	(3)	**(7)**
Other	(4)	(19)	(112)	(247)	24	**(358)**
Total	**(174)**	**(323)**	**898**	**(2,479)**	**(681)**	**(2,759)**
As at 31 December 2021						
HRK	(35)	(240)	(150)	(1,506)	139	(1,792)
EUR	(140)	(77)	652	(538)	(598)	(701)
USD	(10)	15	(40)	(1)	2	(34)
CHF	(3)	5	4	(5)	(7)	(6)
Other	(3)	(18)	(63)	(239)	24	(299)
Total	**(191)**	**(315)**	**403**	**(2,289)**	**(440)**	**(2,832)**

Notes to the financial statements (continued)

48 Interest rate risk (continued)

(in HRK thousands)

Bank **Assets**	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 10 years	Over 10 years	**Total**
As at 31 December 2022						
HRK	-	(219)	457	(1,015)	229	**(548)**
EUR	(142)	36	383	(984)	(560)	**(1,267)**
USD	(10)	(17)	-	(16)	1	**(42)**
CHF	(12)	5	3	(4)	(3)	**(11)**
Other	(1)	2	1	-	-	**2**
Total	**(165)**	**(193)**	**844**	**(2,019)**	**(333)**	**(1,866)**
As at 31 December 2021						
HRK	(36)	(231)	(164)	(1,445)	265	**(1,611)**
EUR	(165)	124	323	(444)	(42)	**(204)**
USD	(8)	18	(29)	(4)	2	**(21)**
CHF	(3)	6	4	(4)	(6)	**(3)**
Other	-	2	1	-	-	**3**
Total	**(212)**	**(81)**	**135**	**(1,897)**	**219**	**(1,836)**

49 Weighted average interest rates

The average effective interest rates for interest-earning financial assets and interest-bearing financial liabilities during the year are calculated on average balances at the end of each month for the Group and average monthly balances for the Bank.

The weighted average interest rates at the year-end are as follows:

	GROUP 2022 %	2021 %	**BANK** 2022 %	2021 %
Current accounts with banks	(0.29)	(0,27)	(0.04)	(0,07)
Balances with the Croatian National Bank	0.00	0.00	0.00	0.00
Financial assets at fair value through profit or loss	2.34	2.32	2.39	2.32
Loans and advances to banks	0.08	(0.13)	0.08	(0.38)
Loans and advances to customers	2.92	3.52	3.10	3.52
Current accounts and deposits from customers	0.06	0.04	0.05	0.04
Current accounts and deposits from banks and interest-bearing borrowings	0.44	0.45	0.56	0.45

Notes to the financial statements (continued)

50 Currency risk

The Group manages its exposure to currency risk through a variety of measures including the use of revaluation clauses, which have the same effect as denominating HRK assets in other currencies and foreign currency deals bought and sold forward.

The Group's open FX position is mitigated through the use of derivative financial instruments which are not shown in the tables below.

Notes to the financial statements (continued)

50 Currency risk (continued)

(in HRK million)

Group **As at 31 December 2022**	EUR and EUR linked	CHF and CHF linked	USD and USD linked	BAM and BAM linked	Other currencies	HRK	**Total**
Assets							
Cash and current accounts with banks	12,260	535	599	1,880	297	30,873	**46,444**
Balances with the Croatian National Bank	-	-	-	-	-	2,976	**2,976**
Financial assets held for trading	111	-	14	-	-	420	**545**
Derivative financial assets	634	-	18	-	-	-	**652**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	(493)	-	-	-	-	-	**(493)**
Loans and advances to banks	3,283	829	2,196	783	476	284	**7,851**
Loans and advances to customers	52,697	30	285	3,507	1	27,399	**83,919**
Investment securities	5,596	-	770	-	-	5,988	**12,354**
Investments in subsidiaries and associates	-	-	-	-	-	65	**65**
Other assets	81	-	-	18	-	208	**307**
Current tax assets	-	-	-	16	-	-	**16**
Property and equipment	201	-	-	88	-	1,440	**1,729**
Investment property	10	-	-	-	-	23	**33**
Non-current assets held for sale	11	-	-	-	-	303	**314**
Deferred tax assets	9	-	-	3	-	175	**187**
Intangible assets	71	-	-	19	-	349	**439**
Total assets	**74,471**	**1,394**	**3,882**	**6,314**	**774**	**7,503**	**157,338**
Liabilities							
Current accounts and deposits from banks	1,520	33	21	40	72	741	**2,427**
Current accounts and deposits from customers	65,682	1,360	4,455	4,733	710	49,762	**126,702**
Derivative financial liabilities	3	-	8	-	8	-	**19**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	**-**
Current tax liability	1	-	-	-	-	74	**75**
Other liabilities	276	2	26	103	2	1,449	**1,858**
Accrued expenses and deferred income	59	-	-	-	-	352	**411**
Interest-bearing borrowings and other financial liabilities	2,785	-	-	44	-	2,065	**4,894**
Senior non-preferred debt	1,019	-	-	-	-	-	**1,019**
Provisions	110	-	14	17	8	633	**782**
Deferred tax liabilities	27	-	-	1	-	51	**79**
Total liabilities	**71,482**	**1,395**	**4,524**	**4,938**	**800**	**55,127**	**138,266**
Net position	**2,989**	**(1)**	**(642)**	**1,376**	**(26)**	**15,376**	**19,072**

Notes to the financial statements (continued)

50 Currency risk (continued)

(in HRK million)

Group **As at 31 December 2021**	EUR and EUR linked	CHF and CHF linked	USD and USD linked	BAM and BAM linked	Other currencies	HRK	**Total**
Assets							
Cash and current accounts with banks	12,818	233	744	1,983	704	19,403	**35,885**
Balances with the Croatian National Bank	-	-	-	-	-	4,533	**4,533**
Financial assets held for trading	256	-	14	-	-	865	**1,135**
Derivative financial assets	8	-	2	-	-	33	**43**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	31	-	-	-	-	-	**31**
Loans and advances to banks	3,556	962	707	757	28	220	**6,230**
Loans and advances to customers	45,162	49	861	3,050	1	29,556	**78,679**
Investment securities	4,400	-	990	100	-	6,260	**11,750**
Investments in subsidiaries and associates	-	-	-	-	-	66	**66**
Other assets	39	-	-	26	-	141	**206**
Current tax assets	-	-	-	14	-	16	**30**
Property and equipment	216	-	-	85	-	1,490	**1,791**
Investment property	12	-	-	-	-	62	**74**
Non-current assets held for sale	15	-	-	-	-	8	**23**
Deferred tax assets	4	-	-	2	-	130	**136**
Intangible assets	67	-	-	14	-	289	**370**
Total assets	**66,584**	**1,244**	**3,318**	**6,031**	**733**	**63,072**	**140,982**
Liabilities							
Current accounts and deposits from banks	686	46	24	50	63	426	**1,295**
Current accounts and deposits from customers	57,652	1,188	3,808	4,493	666	42,173	**109,980**
Derivative financial liabilities	89	-	8	-	-	1	**98**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	4	-	-	-	-	-	**4**
Current tax liability	5	-	-	-	-	13	**18**
Other liabilities	281	2	11	85	2	1,341	**1,722**
Accrued expenses and deferred income	40	-	-	-	-	278	**318**
Interest-bearing borrowings and other financial liabilities	4,786	-	-	41	-	2,145	**6,972**
Senior non-preferred debt	827	-	-	-	-	-	**827**
Provisions	67	-	13	-	35	622	**737**
Deferred tax liabilities	26	-	-	-	1	55	**82**
Total liabilities	**64,463**	**1,236**	**3,864**	**4,669**	**767**	**47,054**	**122,053**
Net position	**2,121**	**8**	**(546)**	**1,362**	**(34)**	**16,018**	**18,929**

Notes to the financial statements (continued)

50 Currency risk (continued)

(in HRK million)

Bank **As at 31 December 2022**	EUR and EUR linked	CHF and CHF linked	USD and USD linked	BAM and BAM linked	Other currencies	HRK	**Total**
Assets							
Cash and current accounts with banks	6,264	494	485	41	221	31,142	**38,647**
Balances with the Croatian National Bank	-	-	-	-	-	2,976	**2,976**
Financial assets held for trading	110	-	14	-	-	421	**545**
Derivative financial assets	297	-	-	-	-	-	**297**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	(295)	-	-	-	-	-	**(295)**
Loans and advances to banks	2,392	690	1,708	-	449	332	**5,571**
Loans and advances to customers	31,910	19	285	-	1	25,764	**57,979**
Investment securities	3,553	-	452	-	-	5,988	**9,993**
Investments in subsidiaries and associates	-	-	-	-	-	1,847	**1,847**
Other assets	39	-	-	-	-	148	**187**
Current tax assets	-	-	-	-	-	-	**-**
Property and equipment	-	-	-	-	-	1,062	**1,062**
Investment property	-	-	-	-	-	23	**23**
Non-current assets held for sale	-	-	-	-	-	8	**8**
Deferred tax assets	-	-	-	-	-	134	**134**
Intangible assets	-	-	-	-	-	305	**305**
Total assets	**44,270**	**1,203**	**2,944**	**41**	**671**	**70,150**	**119,279**
Liabilities							
Current accounts and deposits from banks	806	34	21	-	72	753	**1,686**
Current accounts and deposits from customers	40,482	1,168	3,511	3	609	49,755	**95,528**
Derivative financial liabilities	-	-	-	-	8	-	**8**
Current tax liability	-	-	-	-	-	68	**68**
Other liabilities	144	2	19	-	2	733	**900**
Accrued expenses and deferred income	-	-	-	-	-	165	**165**
Interest-bearing borrowings and other financial liabilities	1,244	-	-	-	-	2,029	**3,273**
Senior non-preferred debt	1,019	-	-	-	-	-	**1,019**
Provisions	19	-	14		8	629	**670**
Deferred tax liabilities	-	-	-	-	-	29	**29**
Total liabilities	**43,714**	**1,204**	**3,565**	**3**	**699**	**54,161**	**103,346**
Net position	**556**	**(1)**	**(621)**	**38**	**(28)**	**15,989**	**15,933**

Notes to the financial statements (continued)

50 Currency risk (continued)

(in HRK million)

Bank **As at 31 December 2021**	EUR and EUR linked	CHF and CHF linked	USD and USD linked	BAM and BAM linked	Other cur-ren-cies	HRK	**Total**
Assets							
Cash and current accounts with banks	6,596	212	573	7	627	19,388	**27,403**
Balances with the Croatian National Bank	-	-	-	-	-	4,533	**4,533**
Financial assets held for trading	256	-	14	-	-	865	**1,135**
Derivative financial assets	3	-	-	-	-	34	**37**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	(3)	-	-	-	-	-	**(3)**
Loans and advances to banks	2,847	863	700	-	-	249	**4,659**
Loans and advances to customers	25,878	32	858	-	1	27,066	**53,835**
Investment securities	2,786	-	534	-	-	6,184	**9,504**
Investments in subsidiaries and associates	-	-	-	-	-	1,962	**1,962**
Other assets	9	-	-	-	-	110	**119**
Current tax assets	-	-	-	-	-	-	**-**
Property and equipment	-	-	-	-	-	1,078	**1,078**
Investment property	-	-	-	-	-	24	**24**
Non-current assets held for sale	-	-	-	-	-	8	**8**
Deferred tax assets	-	-	-	-	-	83	**83**
Intangible assets	-	-	-	-	-	252	**252**
Total assets	**38,372**	**1,107**	**2,679**	**7**	**628**	**61,836**	**104,629**
Liabilities							
Current accounts and deposits from banks	963	61	24	-	64	799	**1,911**
Current accounts and deposits from customers	34,537	1,036	3,183	3	555	41,798	**81,112**
Derivative financial liabilities	-	-	-	-	-	1	**1**
Current tax liability	-	-	-	-	-	11	**11**
Other liabilities	70	2	9	-	1	632	**714**
Accrued expenses and deferred income	-	-	-	-	-	148	**148**
Interest-bearing borrowings and other financial liabilities	1,473	-	-	-	-	2,124	**3,597**
Senior non-preferred debt	827	-	-	-	-		**827**
Provisions	22	-	13	-	13	617	**665**
Deferred tax liabilities	-	-	-	-	-	31	**31**
Total liabilities	**37,892**	**1,099**	**3,229**	**3**	**633**	**46,161**	**89,017**
Net position	**480**	**8**	**(550)**	**4**	**(5)**	**15,675**	**15,612**

Notes to the financial statements (continued)

51 Liquidity risk

Analysis of financial liabilities by remaining undiscounted contractual maturities

The tables below set out the remaining undiscounted contractual maturity of the Group's and Bank's financial liabilities as at 31 December 2022 and 31 December 2021.

(in HRK million)

Group **As at 31 December 2022**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
Liabilities							
Current accounts and deposits from banks	1,571	528	328	-	-	**2,427**	**2,427**
Current accounts and deposits from customers	70,491	2,506	7,934	45,811	393	**127,135**	**126,702**
Derivative financial liabilities	1	2	12	2	-	**17**	**19**
Interest-bearing borrowings and other financial liabilities	327	43	324	2,901	1,180	**4,775**	**4,615**
Senior non-preferred debt	-	-	-	1,026	-	**1,026**	**1,019**
Lease liability	8	13	61	149	23	**254**	**279**
Other liabilities*	2,761	82	205	130	34	**3,212**	**3,205**
Total undiscounted financial liabilities	**75,159**	**3,174**	**8,864**	**50,019**	**1,630**	**138,846**	**138,266**
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	8,570	1,267	4,363	7,640	436	**22,276**	**22,276**
Other contingent liabilities	362	1,245	1,960	1,753	481	**5,801**	**5,801**
Total undiscounted off-balance sheet contingent liabilities and commitments	**8,932**	**2,512**	**6,323**	**9,393**	**917**	**28,077**	**28,077**

* Other liabilities include other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability,

Notes to the financial statements (continued)

51 Liquidity risk (continued)

Analysis of financial liabilities by remaining undiscounted contractual maturities (continued)

(in HRK million)

Group **As at 31 December 2021**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
Liabilities							
Current accounts and deposits from banks	1,168	112	15	-	-	**1,295**	**1,295**
Current accounts and deposits from customers	52,575	5,479	12,904	29,628	9,674	**110,261**	**109,980**
Derivative financial liabilities	6	7	25	48	12	**98**	**98**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	4	**4**	**4**
Interest-bearing borrowings and other financial liabilities	506	630	208	4,094	1,312	**6,750**	**6,693**
Senior non-preferred debt	-	-	-	852	-	**852**	**827**
Lease liability	8	15	70	219	65	**376**	**279**
Other liabilities*	2,514	62	158	105	27	**2,866**	**2,877**
Total undiscounted financial liabilities	**56,777**	**6,305**	**13,379**	**34,946**	**11,094**	**122,501**	**122,053**
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	2,492	2,050	10,811	3,094	481	**18,928**	**18,928**
Other contingent liabilities	302	929	1,542	1,967	364	**5,104**	**5,108**
Total undiscounted off-balance sheet contingent liabilities and commitments	**2,794**	**2,979**	**12,353**	**5,061**	**845**	**24,032**	**24,036**

* Other liabilities include other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability,

Notes to the financial statements (continued)

51 Liquidity risk (continued)

Analysis of financial liabilities by remaining undiscounted contractual maturities (continued)

(in HRK million)

Bank **As at 31 December 2022**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
Liabilities							
Current accounts and deposits from banks	1,684	-	2	-	-	**1,686**	**1,686**
Current accounts and deposits from customers	42,046	2,105	6,830	44,765	205	**95,951**	**95,528**
Derivative financial liabilities	-	2	6	-	-	**8**	**8**
Interest-bearing borrowings and other financial liabilities	260	25	184	1,875	764	**3,108**	**2,967**
Senior non-preferred debt	-	-	-	1,026	-	**1,026**	**1,019**
Lease liability	6	11	52	148	34	**251**	**306**
Other liabilities*	1,575	14	179	36	30	**1,834**	**1,832**
Total undiscounted financial liabilities	**45,571**	**2,157**	**7,253**	**47,850**	**1,033**	**103,864**	**103,346**
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	7,321	889	2,527	6,440	410	**17,587**	**17,588**
Other contingent liabilities	292	698	1,133	1,368	471	**3,962**	**3,961**
Total undiscounted off-balance sheet contingent liabilities and commitments	**7,613**	**1,587**	**3,660**	**7,808**	**881**	**21,549**	**21,549**

* Other liabilities include other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability,

Notes to the financial statements (continued)

51 Liquidity risk (continued)

Analysis of financial liabilities by remaining undiscounted contractual maturities (continued)

(in HRK million)

Bank **As at 31 December 2021**	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total gross cash flows	Total carrying amount
Liabilities							
Current accounts and deposits from banks	1,275	1	638	-	-	**1,914**	**1,911**
Current accounts and deposits from customers	39,193	2,283	7,799	23,178	8,996	**81,449**	**81,112**
Derivative financial liabilities	-	1	-	-	-	**1**	**1**
Interest-bearing borrowings and other financial liabilities	329	23	196	1,899	904	**3,351**	**3,291**
Senior non-preferred debt	-	-	-	852	-	**852**	**827**
Lease liability	6	12	55	186	53	**312**	**306**
Other liabilities*	1,335	22	142	43	27	**1,569**	**1,569**
Total undiscounted financial liabilities	**42,138**	**2,342**	**8,830**	**26,158**	**9,980**	**89,448**	**89,017**
Off-balance sheet contingent liabilities and commitments							
Undrawn lending commitments	1,133	1,703	9,161	1,954	481	**14,432**	**14,432**
Other contingent liabilities	247	597	980	1,524	342	**3,690**	**3,690**
Total undiscounted off-balance sheet contingent liabilities and commitments	**1,380**	**2,300**	**10,141**	**3,478**	**823**	**18,122**	**18,122**

* Other liabilities include other liabilities, accrued expenses and deferred income, provisions for liabilities and charges, deferred tax liabilities and current tax liability.

Notes to the financial statements (continued)

51 Liquidity risk (continued)

Maturity analysis of assets and liabilities

The tables below present analyses of assets and liabilities of the Group and Bank according to their expected maturities at 31 December 2022 and 31 December 2021. The Group's expected cash flows on some financial assets and liabilities vary significantly from the contractual cash flows. For example, demand deposits from customers are expected to maintain a stable balance and are not all expected to be drawn immediately.

The Group and the Bank made certain assumptions in producing the maturity analyses set out below. The assumptions applied for loans and advances to customers were mostly based on contractual maturities, whilst overdraft, revolving and other facilities without precise amortisation plans were assumed to be recoverable within 12 months. Moreover, expected maturities for current accounts and deposits from customers and to some extent non-performing loans were based on statistical behaviour model as of past experience. All other items of the Group and the Bank were mostly based on contractual maturities.

Notes to the financial statements (continued)

51 Liquidity risk (continued)

Maturity analysis of assets and liabilities (continued)

(in HRK million)

Group

As at 31 December 2022	Less than 12 months	Over 12 months	**Total**
Assets			
Cash and current accounts with banks	46,444	-	**46,444**
Balances with the Croatian National Bank	2,976	-	**2,976**
Financial assets held for trading	214	331	**545**
Derivative financial assets	361	291	**652**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	(295)	(198)	**(493)**
Loans and advances to banks	7,236	615	**7,851**
Loans and advances to customers	21,880	62,039	**83,919**
Investment securities	7,849	4,505	**12,354**
Investments in subsidiaries and associates	-	65	**65**
Other assets	213	94	**307**
Current tax assets	-	16	**16**
Property and equipment	-	1,729	**1,729**
Investment property	-	33	**33**
Non-current assets held for sale	306	8	**314**
Deferred tax assets	165	22	**187**
Intangible assets	-	439	**439**
Total assets	**87,349**	**69,989**	**157,338**
Liabilities			
Current accounts and deposits from banks	2,427	-	**2,427**
Current accounts and deposits from customers	80,927	45,775	**126,702**
Derivative financial liabilities	17	2	**19**
Current tax liability	75	-	**75**
Other liabilities	1,853	5	**1,858**
Accrued expenses and deferred income	386	25	**411**
Interest-bearing borrowings and other financial liabilities	775	4,119	**4,894**
Senior non-preferred debt	-	1,019	**1,019**
Provisions	663	119	**782**
Deferred tax liabilities	70	9	**79**
Total liabilities	**87,193**	**51,073**	**138,266**
Net expected maturity gap	**156**	**18,916**	**19,072**

Notes to the financial statements (continued)

51 Liquidity risk (continued)

Maturity analysis of assets and liabilities (continued)

(in HRK million)

Group

As at 31 December 2021	Less than 12 months	Over 12 months	**Total**
Assets			
Cash and current accounts with banks	35,885	-	**35,885**
Balances with the Croatian National Bank	4,533	-	**4,533**
Financial assets held for trading	436	699	**1,135**
Derivative financial assets	34	9	**43**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	(3)	34	**31**
Loans and advances to banks	5,769	461	**6,230**
Loans and advances to customers	20,135	58,544	**78,679**
Investment securities	6,330	5,420	**11,750**
Investments in subsidiaries and associates	-	66	**66**
Other assets	161	45	**206**
Current tax assets	15	15	**30**
Property and equipment	-	1,791	**1,791**
Investment property	-	74	**74**
Non-current assets held for sale	15	8	**23**
Deferred tax assets	115	21	**136**
Intangible assets	-	370	**370**
Total assets	**73,425**	**67,557**	**140,982**
Liabilities			
Current accounts and deposits from banks	1,295	-	**1,295**
Current accounts and deposits from customers	70,958	39,022	**109,980**
Derivative financial liabilities	38	60	**98**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	4	**4**
Current tax liability	18	-	**18**
Other liabilities	1,715	7	**1,722**
Accrued expenses and deferred income	312	6	**318**
Interest-bearing borrowings and other financial liabilities	1,424	5,548	**6,972**
Senior non-preferred debt	-	827	**827**
Provisions	646	91	**737**
Deferred tax liabilities	70	12	**82**
Total liabilities	**76,476**	**45,577**	**122,053**
Net expected maturity gap	**(3,051)**	**21,980**	**18,929**

Notes to the financial statements (continued)

51 Liquidity risk (continued)

Maturity analysis of assets and liabilities (continued)

(in HRK million)

Bank

As at 31 December 2022	Less than 12 months	Over 12 months	**Total**
Assets			
Cash and current accounts with banks	38,647	-	**38,647**
Balances with the Croatian National Bank	2,976	-	**2,976**
Financial assets held for trading	214	331	**545**
Derivative financial assets	297	-	**297**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	(295)	-	**(295)**
Loans and advances to banks	5,420	151	**5,571**
Loans and advances to customers	14,049	43,930	**57,979**
Investment securities	6,801	3,192	**9,993**
Investments in subsidiaries and associates	-	1,847	**1,847**
Other assets	136	51	**187**
Property and equipment	-	1,062	**1,062**
Investment property	-	23	**23**
Non-current assets held for sale	-	8	**8**
Deferred tax assets	134	-	**134**
Intangible assets	-	305	**305**
Total assets	**68,379**	**50,900**	**119,279**
Liabilities			
Current accounts and deposits from banks	1,686	-	**1,686**
Current accounts and deposits from customers	50,980	44,548	**95,528**
Derivative financial liabilities	8	-	**8**
Current tax liability	68	-	**68**
Other liabilities	896	4	**900**
Accrued expenses and deferred income	160	5	**165**
Interest-bearing borrowings and other financial liabilities	536	2,737	**3,273**
Senior non-preferred debt	-	1,019	**1,019**
Provisions	614	56	**670**
Deferred tax liabilities	29	-	**29**
Total liabilities	**54,977**	**48,369**	**103,346**
Net expected maturity gap	**13,402**	**2,531**	**15,933**

Notes to the financial statements (continued)

51 Liquidity risk (continued)

Maturity analysis of assets and liabilities (continued)

(in HRK million)

Bank

As at 31 December 2021	Less than 12 months	Over 12 months	**Total**
Assets			
Cash and current accounts with banks	27,403	-	**27,403**
Balances with the Croatian National Bank	4,533	-	**4,533**
Financial assets held for trading	435	700	**1,135**
Derivative financial assets	34	3	**37**
Fair value changes of the hedge items in portfolio hedge of interest rate risk	(3)	-	**(3)**
Loans and advances to banks	4,659	-	**4,659**
Loans and advances to customers	12,742	41,093	**53,835**
Investment securities	6,138	3,366	**9,504**
Investments in subsidiaries and associates	-	1,962	**1,962**
Other assets	100	19	**119**
Property and equipment	-	1,078	**1,078**
Investment property	-	24	**24**
Non-current assets held for sale	-	8	**8**
Deferred tax assets	83	-	**83**
Intangible assets	-	252	**252**
Total assets	**56,124**	**48,505**	**104,629**
Liabilities			
Current accounts and deposits from banks	1,911	-	**1,911**
Current accounts and deposits from customers	49,275	31,837	**81,112**
Derivative financial liabilities	1	-	**1**
Current tax liability	11	-	**11**
Other liabilities	707	7	**714**
Accrued expenses and deferred income	142	6	**148**
Interest-bearing borrowings and other financial liabilities	620	2,977	**3,597**
Senior non-preferred debt	-	827	**827**
Provisions	607	58	**665**
Deferred tax liabilities	31	-	**31**
Total liabilities	**53,305**	**35,712**	**89,017**
Net expected maturity gap	**2,819**	**12,793**	**15,612**

Notes to the financial statements (continued)

52 Concentration of assets and liabilities

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector, The Bank's and the Group's assets and liabilities can be analysed by the following geographical regions and industry sector:

(in HRK million)

			GROUP			**BANK**
As at 31 December 2022	Assets	Liabilities	Off balance sheet liabilities	Assets	Liabilities	Off balance sheet liabilities
Geographic region						
Republic of Croatia	113,818	99,345	19,968	110,781	98,222	19,886
Other European Union members	31,271	28,892	5,652	5,098	2,764	1,309
Other countries	12,249	10,029	2,457	3,400	2,360	354
	157,338	**138,266**	**28,077**	**119,279**	**103,346**	**21,549**
Industry sector						
Citizens	42,350	84,475	9,600	30,003	65,045	8,113
Finance	53,587	12,108	514	44,483	9,174	837
Government	18,710	4,381	2,082	15,186	2,330	2,061
Commerce	5,433	5,368	3,287	2,574	4,046	1,752
Tourism	1,858	2,287	113	1,683	1,973	90
Agriculture	833	636	134	671	573	117
Other sectors	34,567	29,011	12,347	24,679	20,205	8,579
	157,338	**138,266**	**28,077**	**119,279**	**103,346**	**21,549**
As at 31 December 2021						
Geographic region						
Republic of Croatia	99,240	85,877	16,857	96,081	84,287	16,662
Other European Union members	29,572	26,747	4,684	5,682	2,577	1,026
Other countries	12,170	9,429	2,495	2,866	2,153	434
	140,982	**122,053**	**24,036**	**104,629**	**89,017**	**18,122**
Industry sector						
Citizens	40,374	73,600	9,175	28,295	54,523	7,632
Finance	27,854	13,046	388	19,753	9,404	719
Government	18,274	2,693	410	14,201	1,277	362
Commerce	4,853	5,243	2,998	2,157	3,837	1,542
Tourism	2,343	1,884	72	2,086	1,541	22
Agriculture	830	538	122	697	480	100
Other sectors	46,454	25,049	10,871	37,440	17,955	7,745
	140,982	**122,053**	**24,036**	**104,629**	**89,017**	**18,122**

53 Subsequent events

a) Sale of acquiring business

On 2 June 2022 PBZ Card d.o.o., (a fully owned subsidiary of Privredna banka Zagreb) entered into a Framework agreement with Nexi Croatia d.o.o. in order to realise the sale of acquiring business (defined as "business relating to the acquiring of payment transactions operated by PBZ Card d.o.o. comprising of assets and properties, contracts and rights, liabilities and obligations pertaining to the business owned, organised and operated by PBZ Card d.o.o.").

Following externally required approvals, the transaction between the parties has been executed on 28 February 2023. In accordance with the contract, the buyer shall be entitled to the operating results of the business from the 1 January 2022. The transaction value is EUR 180 million gross, while after taxes, transaction costs and cash payments for the results achieved from 1 January 2022, the expected net effect of the transaction shall be EUR 95.9 million.

The table below provides main items of Transferred assets and Transferred liabilities with corresponding figures as at 28 February 2023 and 31 December 2022.

	(in HRK million)	
	28 February 2023	31 December 2022
Trade receivables	609	607
Other receivables	91	125
Prepaid expenses	1	-
Non-current assets	11	11
Other assets	66	90
	778	**833**
Trade payables	776	831
Accrued expenses and deferred income	2	2
	778	**833**

b) Conversion to euro as official national currency

On 1 January 2023 Republic of Croatia became the 20th EU member state in which the euro is the official national currency. The Croatian perimeter of the Group converted the opening balance sheet items as of 1 January 2023 to euro in accordance with the Act on the introduction of the euro as official currency in the Republic of Croatia, using the prescribed exchange rate of 7.5345 kuna for 1 euro. The transaction did not have significant impact to financial statements of the Bank and the Group.

Appendix 1 – Unaudited supplementary forms required by local regulation

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

Form "Balance sheet"

(in HRK million)

	GROUP		BANK	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Assets				
Cash and deposits with the Croatian National Bank	43,829	29,871	41,623	27,403
Cash in hand	8,016	4,730	6,023	2,590
Deposits with the Croatian National Bank	34,969	23,735	35,244	23,738
Other deposits	844	1,406	356	1,075
Financial assets held for trading	559	1,171	547	1,169
Derivatives	14	36	2	34
Equity instruments	-	-	-	-
Debt securities	545	1,135	545	1,135
Loans and advances	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	72	88	52	62
Equity instruments	36	21	27	16
Debt securities	36	67	25	46
Loans and advances	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-
Debt securities	-	-	-	-
Loans and advances	-	-	-	-
Financial assets at fair value through other comprehensive income	10,268	9,679	7,927	7,483
Equity instruments	82	160	3	54
Debt securities	10,186	9,519	7,924	7,429
Loans and advances	-	-	-	-
Financial assets at amortised cost	99,429	97,475	65,621	65,028
Debt securities	2,014	1,982	2,014	1,958
Loans and advances	97,415	95,495	63,607	63,070
Derivatives – Hedge accounting	638	7	295	3

Appendix 1 – Unaudited supplementary forms required by local regulation (continued)

Form "Balance sheet"(continued)

(in HRK million)

	GROUP		BANK	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Assets				
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(493)	31	(295)	(3)
Investments in subsidiaries, joint ventures and associates	65	66	1,847	1,962
Tangible assets	1,762	1,866	1,085	1,102
Intangible assets	439	370	305	252
Tax assets	203	166	134	83
Other assets	310	210	187	120
Non-current assets and disposal groups classified as held for sale	314	23	8	8
Total assets	**157,395**	**141,025**	**119,336**	**104,672**

Appendix 1 – Unaudited supplementary forms required by local regulation (continued)

Form "Balance sheet"(continued)

(in HRK million)

	GROUP		BANK	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Liabilities				
Financial liabilities held for trading	19	3	8	1
Derivatives	19	3	8	1
Short positions	-	-	-	-
Deposits	-	-	-	-
Debt securities issued	-	-	-	-
Other financial liabilities	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-
Deposits	-	-	-	-
Debt securities issued	-	-	-	-
Other financial liabilities	-	-	-	-
Financial liabilities measured at amortised cost	135,231	119,310	101,812	87,657
Deposits	134,774	118,756	101,246	87,115
Debt securities issued	-	-	-	-
Other financial liabilities	457	554	566	542
Derivatives – Hedge accounting	-	95	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	4	-	-
Provisions	839	780	727	708
Tax liabilities	154	100	97	42
Share capital repayable on demand	-	-	-	-
Other liabilities	2,080	1,804	759	652
Liabilities included in disposal groups classified as held for sale	-	-	-	-
Total liabilities	**138,323**	**122,096**	**103,403**	**89,060**

Appendix 1 – Unaudited supplementary forms required by local regulation (continued)

Form "Balance sheet" (continued)

(in HRK million)

	GROUP		BANK	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Equity				
Share capital	1,877	1,907	1,877	1,907
Share premium	1,570	1,570	1,570	1,570
Equity instruments issued other than capital	-	-	-	-
Other equity	-	-	-	-
Accumulated other comprehensive income	(122)	3	(101)	(4)
Retained earnings	13,104	12,634	11,080	10,698
Revaluation reserves	310	323	147	157
Other reserves	(269)	229	(66)	443
(-) Treasury shares	-	(278)	-	(274)
Profit or loss attributable to owners of the parent	1,404	1,338	1,426	1,114
(-) Interim dividends	-	-	-	-
Minority interests [Non-controlling interests]	1,198	1,203	-	-
Total equity	**19,072**	**18,929**	**15,933**	**15,611**
Total liabilities and equity	**157,395**	**141,025**	**119,336**	**104,671**
Total equity	**19,072**	**18,929**	**15,933**	**15,611**
Equity holders of the Bank	17,874	17,726	15,933	15,611
Non-controlling interests	1,198	1,203	-	-

The balance sheet form is prepared in accordance with the CNB Decision on the Structure and Content of Annual Financial Statements for Banks.

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB.

Balance sheet reconciliation as at 31 December 2022

Group, Assets **Per IFRS** **(in HRK million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Cash and deposits with the Croatian National Bank	40,853	2,976	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**43,829**
Cash in hand	8,016	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**8,016**
Deposits with the Croatian National Bank	31,993	2,976	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**34,969**
Other deposits	844	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**844**
Financial assets held for trading	-	-	545	14	-	-	-	-	-	-	-	-	-	-	-	-	**559**
Derivatives	-	-	-	14	-	-	-	-	-	-	-	-	-	-	-	-	**14**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Debt securities	-	-	545	-	-	-	-	-	-	-	-	-	-	-	-	-	**545**
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2022 (continued)

Group, Assets (continued) **Per IFRS** **(in HRK million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	72	-	-	-	-	-	-	-	-	**72**
Equity instruments	-	-	-	-	-	-	-	36	-	-	-	-	-	-	-	-	**36**
Debt securities	-	-	-	-	-	-	-	36	-	-	-	-	-	-	-	-	**36**
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB,

Balance sheet reconciliation as at 31 December 2022 (continued)

Group, Assets (continued) **Per IFRS** **(in HRK million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	10,268	-	-	-	-	-	-	-	-	**10,268**
Equity instruments	-	-	-	-	-	-	-	82	-	-	-	-	-	-	-	-	**82**
Debt securities	-	-	-	-	-	-	-	10,186	-	-	-	-	-	-	-	-	**10,186**
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial assets at amortised cost	5,591	-	-	-	-	7,851	83,976	2,014	-	-	-	-	-	-	(3)	-	**99,429**
Debt securities	-	-	-	-	-	-	-	2,014	-	-	-	-	-	-	-	-	**2,014**
Loans and advances	5,591	-	-	-	-	7,851	83,976	-	-	-	-	-	-	-	(3)	-	**97,415**
Derivatives – Hedge accounting	-	-	-	638	-	-	-	-	-	-	-	-	-	-	-	-	**638**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB,

Balance sheet reconciliation as at 31 December 2022 (continued)

Group, Assets (continued) **Per IFRS** **(in HRK million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	(493)	-	-	-	-	-	-	-	-	-	-	-	**(493)**
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	65	-	-	-	-	-	-	-	**65**
Tangible assets	-	-	-	-	-	-	-	-	-	-	1,729	33	-	-	-	-	**1,762**
Intangible assets	-	-	-	-	-	-	-	-	-	439	-	-	-	-	-	-	**439**
Tax assets	-	-	-	-	-	-	-	-	-	-	-	-	-	187	-	16	**203**
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	310	-	**310**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB,

Balance sheet reconciliation as at 31 December 2022 (continued)

Group, Assets (continued) **Per IFRS** **(in HRK million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	314	-	-	-	**314**
Transfer to provisions	-	-	-	-	-	-	(57)	-	-	-	-	-	-	-	-	-	**(57)**
Total assets	**46,444**	**2,976**	**545**	**652**	**(493)**	**7,851**	**83,919**	**12,354**	**65**	**439**	**1,729**	**33**	**314**	**187**	**307**	**16**	**157,338**

Appendix 1 – Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2022 (continued)

Group, Liabilities **Per IFRS** **(in HRK million)**

CNB schedules	Current accounts and deposits from banks	Current accounts and deposits from customers	Derivative financial liabilities	Fair value changes of the hedged items in portfolio hedge	Interest-bearing borrowings	Senior non-preferred debt	Other liabilities	Accrued expenses and deferred income	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	**Total liabilities**
Financial liabilities held for trading	-	-	19	-	-	-	-	-	-	-	-	**19**
Derivatives	-	-	19	-	-	-	-	-	-	-	-	**19**
Short positions	-	-	-	-	-	-	-	-	-	-	-	**-**
Deposits	-	-	-	-	-	-	-	-	-	-	-	**-**
Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Other financial liabilities	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	**-**
Deposits	-	-	-	-	-	-	-	-	-	-	-	**-**
Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Other financial liabilities	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial liabilities measured at amortised cost	2,427	126,702	-	-	4,894	1,019	189	-	-	-	-	**135,231**
Deposits	2,427	126,245	-	-	4,894	1,019	189	-	-	-	-	**134,774**
Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Other financial liabilities	-	457	-	-	-	-	-	-	-	-	-	**457**
Derivatives – Hedge accounting	-	-	-	-	-	-	-	-	-	-	-	**-**

Appendix 1 – Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2022 (continued)

Group, Liabilities (continued) **Per IFRS** **(in HRK million)**

CNB schedules	Current accounts and deposits from banks	Current accounts and deposits from customers	Derivative financial liabilities	Fair value changes of the hedged items in portfolio hedge	Interest-bearing borrowings	Senior non-preferred debt	Other liabilities	Accrued expenses and deferred income	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	**Total liabilities**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	-	-	-	-	-	**-**
Provisions	-	-	-	-	-	-	-	-	839	-	-	**839**
Tax liabilities	-	-	-	-	-	-	-	-	-	79	75	**154**
Share capital repayable on demand	-	-	-	-	-	-	-	-	-	-	-	**-**
Other liabilities	-	-	-	-	-	-	1,669	411	-	-	-	**2,080**
Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfer from loans and advances to customers	-	-	-	-	-	-	-	-	(57)	-	-	**(57)**
Total liabilities	**2,427**	**126,702**	**19**	**-**	**4,894**	**1,019**	**1,858**	**411**	**782**	**79**	**75**	**138,266**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2022 (continued)

Group, Equity **Per IFRS** **(in HRK million)**

CNB schedules	Share capita	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	Non-controlling interests	**Total liabilities**
Share capital	1,877	-	-	-	-	-	-	**1,877**
Share premium	-	1,570	-	-	-	-	-	**1,570**
Equity instruments issued other than capital	-	-	-	-	-	-	-	**-**
Other equity	-	-	-	-	-	-	-	**-**
Accumulated other comprehensive income	-	-	-	-	(122)		-	**(122)**
Retained earnings	-	-	-	-	-	13,104	-	**13,104**
Revaluation reserves	-	-	-	310	-	-	-	**310**
Other reserves	-	-	-	(269)	-	-	-	**(269)**
(-) Treasury shares	-	-	-	-	-	-	-	**-**
Profit or loss attributable to owners of the parent	-	-	-	-	-	1,404	-	**1,404**
(-) Interim dividends	-	-	-	-	-	-	-	**-**
Minority interests [Non-controlling interests]	-	-	-	-	-	-	1,198	**1,198**
Total equity	**1,877**	**1,570**	**-**	**41**	**(122)**	**14,508**	**1,198**	**19,072**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB.

Balance sheet reconciliation as at 31 December 2022

Bank, Assets **Per IFRS** **(in HRK million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Cash and deposits with the Croatian National Bank	**38,647**	**2,976**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**41,623**
Cash in hand	6,023	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**6,023**
Deposits with the Croatian National Bank	32,268	2,976	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**35,244**
Other deposits	356	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**356**
Financial assets held for trading	**-**	-	545	2	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**547**
Derivatives	-	-	-	2	-	-	-	-	-	-	-	-	-	-	-	-	**2**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Debt securities	-	-	545	-	-	-	-	-	-	-	-	-	-	-	-	-	**545**
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB.

Balance sheet reconciliation as at 31 December 2022 (continued)

Bank, Assets (continued) **Per IFRS** **(in HRK million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Non-trading financial assets mandatorily at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**52**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**52**
Equity instruments	-	-	-	-	-	-	-	27	-	-	-	-	-	-	-	-	**27**
Debt securities	-	-	-	-	-	-	-	25	-	-	-	-	-	-	-	-	**25**
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial assets designated at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB.

Balance sheet reconciliation as at 31 December 2022 (continued)

Bank, Assets (continued) **Per IFRS** **(in HRK million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,927**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,927**
Equity instruments	-	-	-	-	-	-	-	3	-	-	-	-	-	-	-	-	**3**
Debt securities	-	-	-	-	-	-	-	7,924	-	-	-	-	-	-	-	-	**7,924**
Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial assets at amortised cost	**-**	**-**	**-**	**-**	-	5,571	58,036	2,014	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**65,621**
Debt securities	-	-	-	-	-	-	-	2,014	-	-	-	-	-	-	-	-	**2,014**
Loans and advances	-	-	-	-	-	5,571	58,036	-	-	-	-	-	-	-	-	-	**63,607**
Derivatives – Hedge accounting	-	-	-	295	-	-	-	-	-	-	-	-	-	-	-	-	**295**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB.

Balance sheet reconciliation as at 31 December 2022 (continued)

Bank, Assets (continued) **Per IFRS** **(in HRK million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	**Total assets**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	(295)	-	-	-	-	-	-	-	-	-	-	-	**(295)**
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	1,847	-	-	-	-	-	-	-	**1,847**
Tangible assets	-	-	-	-	-	-	-	-	-	-	1,062	23	-	-	-	-	**1,085**
Intangible assets	-	-	-	-	-	-	-	-	-	305	-	-	-	-	-	-	**305**
Tax assets	-	-	-	-	-	-	-	-	-	-	-	-	-	134	-	-	**134**
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	187	-	**187**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

The following tables provide reconciliation between statutory financial statements and supplementary schedules for CNB.

Balance sheet reconciliation as at 31 December 2022 (continued)

Bank, Assets (continued) **Per IFRS** **(in HRK million)**

CNB schedules	Cash and current accounts with banks	Balances with the Croatian National Bank	Financial assets held for trading	Derivative financial assets	Fair value changes of the hedged items in portfolio hedge of interest rate risk	Loans and advances to banks	Loans and advances to customers	Investment securities	Investments in associates	Intangible assets	Property and equipment	Investment property	Non-current assets held for sale	Deferred tax assets	Other assets	Tax prepayments	Total assets
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	8	-	-	-	**8**
Transfer to provisions	-	-	-	-	-	-	(57)	-	-	-	-	-	-	-	-	-	**(57)**
Total assets	**38,647**	**2,976**	**545**	**297**	**(295)**	**5,571**	**57,979**	**9,993**	**1,847**	**305**	**1,062**	**23**	**8**	**134**	**187**	**-**	**119,279**

Appendix 1 – Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2022 (continued)

Bank, Liabilities **Per IFRS** **(in HRK million)**

CNB schedules	Current accounts and deposits from banks	Current accounts and deposits from customers	Derivative financial liabilities	Fair value changes of the hedged items in portfolio hedge	Interest-bearing borrowings	Senior non-preferred debt	Other liabilities	Accrued expenses and deferred income	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	Total liabilities
Financial liabilities held for trading	-	-	8	-	-	-	-	-	-	-	-	**8**
Derivatives	-	-	8		-	-	-	-	-	-	-	**8**
Short positions	-	-	-		-	-	-	-	-	-	-	**-**
Deposits	-	-	-	-	-	-	-	-	-	-	-	**-**
Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Other financial liabilities	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	**-**
Deposits	-	-	-	-	-	-	-	-	-	-	-	**-**
Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Other financial liabilities	-	-	-	-	-	-	-	-	-	-	-	**-**
Financial liabilities measured at amortised cost	1,686	95,528	-	-	3,273	1,019	306	-	-	-	-	**101,812**
Deposits	1,686	95,528	-	-	3,013	1,019	-	-	-	-	-	**101,246**
Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Other financial liabilities	-	-	-	-	260	-	306	-	-	-	-	**566**
Derivatives – Hedge accounting	-	-	-	-	-	-	-	-	-	-	-	**-**

Appendix 1 – Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2022 (continued)

Bank, Liabilities (continued) **Per IFRS** **(in HRK million)**

CNB schedules	Current accounts and deposits from banks	Current accounts and deposits from customers	Derivative financial liabilities	Fair value changes of the hedged items in portfolio hedge	Interest-bearing borrowings	Senior non-preferred debt	Other liabilities	Accrued expenses and deferred income	Provisions for liabilities and charges	Deferred tax liabilities	Current tax liability	**Total liabilities**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	-	-	-	-	-	-	-	-	**-**
Provisions	-	-	-	-	-	-	-	-	727	-	-	**727**
Tax liabilities	-	-	-	-	-	-	-	-	-	29	68	**97**
Share capital repayable on demand	-	-	-	-	-	-	-	-	-	-	-	**-**
Other liabilities	-	-	-	-	-	-	594	165	-	-	-	**759**
Liabilities included in disposal groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfer from loans and advances to customers	-	-	-	-	-	-	-	-	(57)	-	-	**(57)**
Total liabilities	**1,686**	**95,528**	**8**	**-**	**3,273**	**1,019**	**900**	**165**	**670**	**29**	**68**	**103,346**

Appendix 1 – Unaudited supplementary forms required by local regulation (continued)

Balance sheet reconciliation as at 31 December 2022 (continued)

Bank, Equity **Per IFRS** **(in HRK million)**

CNB schedules	Share capita	Share premium	Treasury shares	Other reserves	Fair value reserve	Retained earnings	Non-controlling interests	**Total liabilities**
Share capital	1,877	-	-	-	-	-	-	**1,877**
Share premium	-	1,570	-	-	-	-	-	**1,570**
Equity instruments issued other than capital	-	-	-	-	-	-	-	**-**
Other equity	-	-	-	-	-	-	-	**-**
Accumulated other comprehensive income	-	-	-	-	(101)		-	**(101)**
Retained earnings	-	-	-	-	-	11,080	-	**11,080**
Revaluation reserves	-	-	-	147	-	-	-	**147**
Other reserves	-	-	-	(66)	-	-	-	**(66)**
(-) Treasury shares	-	-	-	-	-	-	-	**-**
Profit or loss attributable to owners of the parent	-	-	-	-	-	1,426	-	**1,426**
(-) Interim dividends	-	-	-	-	-	-	-	**-**
Minority interests [Non-controlling interests]	-	-	-	-	-	-	-	**-**
Total equity	**1,877**	**1,570**	**-**	**81**	**(101)**	**12,506**	**-**	**15,933**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Income statement"

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Interest income	2,722	2,739	2,012	2,079
(Interest expense)	(197)	(213)	(123)	(130)
(Expenses on share capital repayable on demand)	-	-	-	-
Dividend income	2	1	345	122
Fee and commission income	2,056	1,863	1,126	998
(Fee and commission expenses)	(455)	(381)	(311)	(254)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	2	195	1	189
Gains or (-) losses on financial assets and liabilities held for trading, net	300	289	286	278
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	2	4	2	2
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-	-
Gains or (-) losses from hedge accounting, net	1	1	2	-
Exchange differences [gain or (-) loss], net	(47)	(33)	(70)	(43)
Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates	-	-	-	-
Gains or (-) losses on derecognition of non-financial assets, net	8	11	(1)	1
Other operating income	170	151	62	57
(Other operating expenses)	(398)	(342)	(138)	(124)
Total operating income, net	**4,166**	**4,285**	**3,193**	**3,175**
(Administrative expenses)	(1,868)	(1,741)	(1,263)	(1,159)
(Payment commitments to resolution funds and deposit guarantee schemes)	(114)	(63)	(77)	(31)
(Depreciation)	(252)	(254)	(181)	(185)
Modification gains or (-) losses, net	29	(9)	29	(3)
(Provisions or (-) reversal of provisions)	(135)	(247)	(77)	(239)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(55)	(267)	44	(204)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-	-	-

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Income statement" (continued)

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
(Impairment or (-) reversal of impairment on non-financial assets)	(2)	(12)	(2)	(7)
Negative goodwill recognised in profit or loss	-	-	-	-
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	10	11	-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	4	12	2	4
Profit or (-) loss before tax from continuing operations	**1,783**	**1,715**	**1,668**	**1,351**
(Tax expense or (-) income related to profit or loss from continuing operations)	(319)	(312)	(242)	(236)
Profit or (-) loss before after from continuing operations	**1,464**	**1,403**	**1,426**	**1,115**
Profit or (-) loss after tax from discontinued operations				
Profit or (-) loss before tax from discontinued operations	-	-	-	-
(Tax expense or (-) income related to discontinued operations)	-	-	-	-
Profit or (-) loss for the year	**1,464**	**1,403**	**1,426**	**1,115**
Attributable to minority interest [non-controlling interests]	60	65	-	-
Attributable to owners of the parent	1,404	1,338	1,426	1,115

The income statement form is prepared in accordance with the CNB Decision on the Structure and Content of Annual Financial Statements for Banks.

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Income statement" (continued)

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Net profit for the year	**1,464**	**1,403**	**1,426**	**1,115**
Other comprehensive income	**(135)**	**(50)**	**(119)**	**(27)**
Items that will not be reclassified to profit or loss	**4**	**(1)**	**2**	**-**
Tangible assets	-	(4)	-	(1)
Intangible assets	-	-	-	-
Actuarial gains (losses) on defined benefit pensions plans	8	-	-	-
Non-current assets and disposal groups classified as held for sale	-	-	-	-
Share of other recognized revenues and costs from entities accounted by equity method	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	(6)	1	-	-
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-	-	-
Income tax relating to items that will not be reclassified	2	2	2	1
Items that are or may be reclassified to profit or loss	**(139)**	**(49)**	**(121)**	**(27)**
Hedge of net investments in foreign operations [effective portion]	-	-	-	-
Foreign currency translation	11	(10)	-	-
Cash flow hedges [effective portion]	-	-	-	-
Hedging instruments [not designated elements]	-	-	-	-

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Income statement" (continued)

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Debt instruments at fair value through other comprehensive income	(175)	(46)	(141)	(33)
Non-current assets and disposal groups held for sale	-	-	-	-
Share of other recognised income and expense of Investments in subsidiaries, joint ventures and associates	-		-	
Income tax relating to items that may be reclassified to profit or (-) loss	25	7	20	6
Total comprehensive income for the year	**1,329**	**1,353**	**1,307**	**1,088**
Attributable to:				
Equity holders of the Bank	1,272	1,294	1,307	1,088
Non-controlling interests	57	59	-	-
	1,329	**1,353**	1,307	**1,088**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2022

Group **Per IFRS** **(in HRK million)**

CNB schedules	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Fair value adjustment in hedge accounting	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Share of profits from associates	Income tax expense	**Profit for the year**
Interest income	2,722	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,722
(Interest expense)	-	(197)	-	-	-	-	-	-	-	-	-	-	-	-	-	(197)
(Expenses on share capital repayable on demand)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend income	-	-	-	-	2	-	-	-	-	-	-	-	-	-	-	2
Fee and commission income	-	-	2,056	-	-	-	-	-	-	-	-	-	-	-	-	2,056
(Fee and commission expenses)	-	-	-	(455)	-	-	-	-	-	-	-	-	-	-	-	(455)
Gains or (-) losses on derecognition of financial assets and liabilities not measured	-	-	-	-	-	-	-	2	-	-	-	-	-	-	-	2

at fair value through profit or loss, net																
Gains or (-) losses on financial assets and liabilities held for trading, net	-	-	-	-	-	300	-	-	-	-	-	-	-	-	-	300
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	-	-	-	-	-	2	-	-	-	-	-	-	-	-	-	2
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains or (-) losses from hedge accounting, net	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	1
Exchange differences [gain or (-) loss], net	-	-	-	-	-	(47)	-	-	-	-	-	-	-	-	-	(47)
Gains or (-) losses on	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

derecognition of investments in subsidiaries, joint ventures and associates																
Gains or (-) losses on derecognition of non-financial assets, net	-	-	-	-	-	-	-	8	-	-	-	-	-	-	-	8
Other operating income	-	-	-	-	-	-	-	70	-	-	-	-	100	-	-	170
(Other operating expenses)	-	-	-	-	-	-	-	-	-	-	-	-	(398)	-	-	(398)
Total operating income, net	**2,722**	**(197)**	**2,056**	**(455)**	**2**	**255**	**1**	**80**	**-**	**-**	**-**	**-**	**(298)**	**-**	**-**	**4,166**
(Administrative expenses)	-	-	-	-	-	-	-	-	-	(14)	(1,106)	-	(748)	-	-	(1,868)
(Payment commitments to resolution funds and deposit guarantee schemes)	-	-	-	-	-	-	-	-	-	-	-	-	(114)	-	-	(114)
(Depreciation)	-	-	-	-	-	-	-	-	-	-	-	(252)	-	-	-	(252)
Modification gains or (-) losses, net	-	-	-	-	-	-	-	-	29	-	-	-	-	-	-	29

(Provisions or (-) reversal of provisions	-	-	-	-	-	-	-	-	-	(135)	-	-	-	-	-	(135)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	10	-	-	-	-	-	-	-	(137)	72	-	-	-	-	-	(55)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Impairment or (-) reversal of impairment on non-financial assets)	-	-	-	-	-	-	-	(2)	-	-	-	-	-	-	-	(2)
Negative goodwill recognised in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share of the profit or (-) loss of	-	-	-	-	-	-	-	-	-	-	-	-	-	10	-	10

investments in subsidiaries, joint ventures and associates accounted for using the equity method																
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-	-	-	-	-	4	-	-	-	-	-	-	-	4
Profit or (-) loss before tax from continuing operations	**2,732**	**(197)**	**2,056**	**(455)**	**2**	**255**	**1**	**82**	**(108)**	**(77)**	**(1,106)**	**(252)**	**(1,160)**	**10**	**-**	**1,783**
(Tax expense or (-) income related to profit or loss from continuing operations)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(319)**	**(319)**
Profit or (-) loss after	**2,732**	**(197)**	**2,056**	**(455)**	**2**	**255**	**1**	**82**	**(108)**	**(77)**	**(1,106)**	**(252)**	**(1,160)**	**10**	**(319)**	**1,464**

tax from continuing operations																
Profit or (-) loss after tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit or (-) loss before tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
(Tax expense or (-) income related to discontinued operations)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit or (-) loss for the year	**2,732**	**(197)**	**2,056**	**(455)**	**2**	**255**	**1**	**82**	**(108)**	**(77)**	**(1,106)**	**(252)**	**(1,160)**	**10**	**(319)**	**1,464**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Income statement reconciliation for the year ended 31 December 2022 (continued)

Bank **Per IFRS** **(in HRK million)**

CNB schedules	Interest income	Interest expense	Fee and commission income	Fee and commission expense	Dividend income	Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	Fair value adjustment in hedge accounting	Other operating income	Net impairment loss on loans and advances to customers	Other impairment losses and provisions	Personnel expenses	Depreciation and amortization	Other operating expenses	Share of profits from associates	Income tax expense	**Profit for the year**
Interest income	2,012	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**2,012**
(Interest expense)	-	(123)	-	-	-	-	-	-	-	-	-	-	-	-	-	**(123)**
(Expenses on share capital repayable on demand)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividend income	-	-	-	-	345	-	-	-	-	-	-	-	-	-	-	**345**
Fee and commission income	-	-	1,126	-	-	-	-	-	-	-	-	-	-	-	-	**1,126**
(Fee and commission expenses)	-	-	-	(311)	-	-	-	-	-	-	-	-	-	-	-	**(311)**
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	-	-	-	-	-	-	1	-	-		-	-	-	-	**1**

Gains or (-) losses on financial assets and liabilities held for trading, net	-	-	-	-	-	286	-	-	-	-	-	-	-	-	-	**286**
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	-	-	-	-	-	2	-	-	-	-	-	-	-	-	-	**2**
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Gains or (-) losses from hedge accounting, net	-	-	-	-	-	-	2	-	-	-	-	-	-	-	-	**2**
Exchange differences [gain or (-) loss], net	-	-	-	-	-	(70)	-	-	-	-	-	-	-	-	-	**(70)**
Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Gains or (-) losses on	-	-	-	-	-	-	-	(1)	-	-	-	-	-	-	-	**(1)**

derecognition of non-financial assets, net																
Other operating income	-	-	-	-	-	-	-	41	-	-	-	-	21	-	-	**62**
(Other operating expenses)	-	-	-	-			-	-	-	-	-	-	(138)	-	-	**(138)**
Total operating income, net	**2,012**	**(123)**	**1,126**	**(311)**	**345**	**218**	**2**	**41**	**-**	**-**	**-**	**-**	**(117)**	**-**	**-**	**3,193**
(Administrative expenses)	-	-	-	-	-	-	-	-	-	(14)	(718)	-	(531)	-	-	**(1,263)**
(Payment commitments to resolution funds and deposit guarantee schemes)	-	-	-	-	-	-	-	-	-	-	-	-	(77)	-	-	**(77)**
(Depreciation)	-	-	-	-	-	-	-	-	-	-	-	(181)	-	-	-	**(181)**
Modification gains or (-) losses, net	-	-	-	-	-	-	-	-	29	-	-	-	-	-	-	**29**
(Provisions or (-) reversal of provisions	-	-	-	-	-	-	-	-	-	(77)	-	-	-	-	-	**(77)**
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	9	-	-	-	-	1	-		(39)	73	-	-	-	-	-	**44**
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

ventures and associates)																
(Impairment or (-) reversal of impairment on non-financial assets)	-	-	-	-	-	-	-	(2)	-	-	-	-	-	-	-	**(2)**
Negative goodwill recognised in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-	-	-	-	-	2	-	-	-	-	-	-	-	**2**
Profit or (-) loss before tax from continuing operations	**2,021**	**(123)**	**1,126**	**(311)**	**345**	**219**	**2**	**41**	**(10)**	**(18)**	**(718)**	**(181)**	**(725)**	**-**	**-**	**1,668**

(Tax expense or (-) income related to profit or loss from continuing operations)	-	-	-	-	-	-	-	-	-	-	-	-		-	(242)	**(242)**
Profit or (-) loss after tax from continuing operations	**2,021**	**(123)**	**1,126**	**(311)**	**345**	**219**	**2**	**41**	**(10)**	**(18)**	**(718)**	**(181)**	**(725)**	**-**	**(242)**	**1,426**
Profit or (-) loss after tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit or (-) loss before tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
(Tax expense or (-) income related to discontinued operations)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit or (-) loss for the year	**2,021**	**(123)**	**1,126**	**(311)**	**345**	**219**	**2**	**41**	**(10)**	**(18)**	**(718)**	**(181)**	**(725)**	**-**	**(242)**	**1,426**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Cash flow statement"

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Cash flow from operating activities				
Profit/(loss) before tax	1,783	1,715	1,668	1,351
Adjustments:				
Impairment losses	192	526	36	450
Depreciation and amortization	252	254	181	185
Unrealised (gains)/losses on securities at fair value through profit or loss	(37)	(37)	122	(37)
(Gains)/losses from sale of tangible assets	(12)	(30)	(2)	(6)
Other (gains)/losses	(29)	9	(29)	3
Changes in assets and liabilities due to operating activities				
Deposits with the Croatian National Bank	5,027	(3,116)	4,533	(498)
Deposits with banking institutions and loans to financial institutions	(1,687)	352	(811)	(78)
Loans to other clients	(5,261)	(3,634)	(4,259)	(1,923)
Securities and other financial instruments at FVOCI	(652)	1,414	(707)	1,116
Securities and other financial instruments held for trading	645	132	499	132
Securities and other financial instruments at fair value through profit or loss which are not actively traded	-	-	-	-
Securities and other financial instruments mandatorily at FVTPL	22	20	12	17
Securities and other financial instruments at amortised cost	(156)	(1,455)	(75)	(1,493)
Other operating assets	(2,163)	(1,335)	42	(3,095)
Financial institutions deposits	(1,126)	534	(220)	(296)
Other clients demand deposits	(12,842)	(8,534)	10,144	5,454
Other clients' savings deposits	(4,649)	(3,336)	5,827	3,325
Other clients term deposits	769	1,353	(1,555)	(822)
Derivative financial liabilities and other liabilities held for trading	(83)	(135)	7	(24)
Other liabilities	32,100	23,800	(917)	904
Interest received	2,373	2,779	1,673	2,088
Dividends received	-	-	-	-
Interest paid	(205)	(250)	(147)	(145)
(Income tax paid)	(276)	(278)	(215)	(225)
Net inflow/(outflow) of cash from operating activities	**13,985**	**10,748**	**15,807**	**6,383**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Cash flow statement" (continued)

(in HRK million)

	GROUP		BANK	
	2022	2021	2022	2021
Investing activities				
Cash receipts from/ (payments to acquire) tangible and intangible assets	(196)	(276)	(218)	(271)
Cash receipts from the disposal of/ (payments for the investment in) subsidiaries, associates and joint ventures	-	-	158	-
Cash receipts from sales of/ (cash payments to acquire) securities and other financial instruments held until maturity	-	-	-	-
Dividends received	3	1	345	122
Other receipts from/ (payments for) investments	-	-	-	-
Net cash flow from investing activities	**(193)**	**(275)**	**285**	**(149)**
Financing activities				
Net increase/(decrease) in received loans	2,078	(1,344)	(325)	(14)
Net increase/(decrease) in issued debt securities	-	-	-	-
Net increase/(decrease) in subordinated and hybrid instruments	-	-	-	-
Proceeds from issue of share capital	-	-	-	-
(Dividends paid)	(1,115)	(817)	(1,115)	(817)
Other proceeds/(payments) from financing activities	(3)	(211)	(3)	(209)
Net cash flow from financing activities	**960**	**(2,372)**	**(1,443)**	**(1,040)**
Net increase/(decrease) in cash and cash equivalents	**14,752**	**8,101**	**14,649**	**5,194**
Cash and cash equivalents at the beginning of the year	**39,994**	**31,877**	**31,555**	**26,345**
Effect of foreign exchange differences on cash and cash equivalents	(5)	16	(5)	16
Cash and cash equivalents at the end of the year	**54,741**	**39,994**	**46,199**	**31,555**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Cash flow statement reconciliation for the year ended 31 December 2022

(in HRK million)

	GROUP			**BANK**		
	CNB schedules	per IFRS	Differences	CNB schedules	per IFRS	Differences
Cash flow from operating activities						
Profit before income tax	1,783	1,783	-	1,668	1,668	-
Impairment losses on loans and advances to customers	-	110	110	-	10	10
Other impairment losses and provisions	-	75	75	-	18	18
Impairment losses	192	-	(192)	36	-	(36)
Gain on disposal of property and equipment and intangible assets	(12)	(12)	-	(2)	(2)	-
Depreciation and amortisation	252	252	-	181	181	-
Net losses from securities at fair value through profit or loss	(37)	82	119	122	83	(39)
Share of profits from associates	-	(10)	(10)	-	-	-
Net interest income	-	(2,535)	(2,535)	-	(1,898)	(1,898)
Net gain on disposal of associate	-	-	-	-	-	-
Net gain/loss on disposal of securities not measured at FVTPL	-	1	1	-	1	1
Dividend income	-	(2)	(2)	-	(345)	(345)
Other gains/(losses)	(29)	-	29	(29)	-	29
Cash flow from operating activities before changes in operating assets	**2,149**	**(256)**	**(2,405)**	**1,976**	**(284)**	**(2,260)**
(Increase)/decrease in operating assets						
Balances with the Croatian National Bank	5,027	4,542	(485)	4,533	4,541	8
Loans and advances to banks	(1,687)	(267)	1,420	(811)	206	1,017
Loans and advances to customers	(5,261)	(5,158)	103	(4,259)	(3,138)	1,121
Financial assets at FVTPL and FVOCI	-	(176)	(176)	-	89	89
Securities and other financial instruments at FVOCI	(652)	-	652	(707)	-	707
Securities and other financial instruments held for trading	645	-	(645)	499	-	(499)
Securities and other financial instruments mandatorily at FVTPL	22	-	(22)	12	-	(12)

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Cash flow statement reconciliation for the year ended 31 December 2022 (continued)

(in HRK million)

	GROUP			**BANK**		
	CNB schedules	per IFRS	Differences	CNB schedules	per IFRS	Differences
Securities and other financial instruments at amortised cost	(156)		156	(75)	-	75
Other assets	(2,163)	(485)	1,678	42	(25)	(67)
Net (increase)/decrease in operating assets	***(4,225)***	***(1,544)***	***2,681***	***(766)***	***1,673***	***2,439***
Increase/(decrease) in operating liabilities						
Current accounts and deposits from banks	(1,126)	1,091	2,217	(220)	(256)	(36)
Current accounts and deposits from customers	-	16,874	16,874	-	13,121	13,121
Other clients demand deposits	(12,842)	-	12,842	10,144	-	(10,144)
Other clients' savings deposits	(4,649)	-	4,649	5,827	-	(5,827)
Other clients term deposits	769	-	(769)	(1,555)	-	1,555
Derivative financial liabilities and other liabilities held for trading	(83)	-	83	7	-	(7)
Other liabilities	32,100	245	(31,855)	(917)	123	1,040
Net increase/(decrease) in operating liabilities	**14,169**	**18,210**	**4,041**	**13,286**	**12,988**	**(298)**
Interest received	2,373	2,373	-	1,673	1,673	-
Interest paid	(205)	(205)	-	(147)	(147)	-
Dividends received	-	12	12	-	345	345
Net cash flow from operating activities	**14,261**	**18,590**	**4,329**	**16,022**	**16,248**	**226**
(Income tax paid)	(276)	(275)	1	(215)	(217)	(2)
Net inflow/(outflow) of cash from operating activities	**13,985**	**18,315**	**4,330**	**15,807**	**16,031**	**224**
Investing activities						
Purchase of property and equipment and intangible assets	(196)	(373)	(177)	(218)	(259)	(41)
Disposal of property and equipment and intangible assets	-	87	87	-	10	10
Cash receipts from the disposal of/ (payments for the investment in) subsidiaries, associates and joint ventures	-	-	-	158	-	158
Cash receipt from sale of non-current assets held for sale	-	12	12	-	-	-
Dividends received	3	-	(3)	345	-	(345)

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Cash flow statement reconciliation for the year ended 31 December 2022 (continued)

(in HRK million)

			GROUP			**BANK**
	CNB schedules	per IFRS	Differences	CNB schedules	per IFRS	Differences
Net cash flow from investing activities	**(193)**	**(274)**	**(81)**	**285**	**(249)**	**(534)**
Financing activities						
Dividends paid	(1,115)	(1,115)	-	(1,115)	(1,115)	-
Increase in interest-bearing borrowings	2,078	(2,063)	(4,141)	(325)	(85)	240
Cash paid for IFRS 16 leases	-	(114)	(114)	-	(94)	(94)
Other proceeds/(payments) from financing activities	(3)	-	3	(3)	-	3
Cash acquired on merger of PBZ Stambena Štedionica d.d.	-	-	-		158	158
Proceeds from sale of treasury shares	-	3	3	-	3	3
Net cash flow from financing activities	**960**	**(3,289)**	**(4,249)**	**(1,443)**	**(1,133)**	**310**
Net increase/(decrease) in cash and cash equivalents	**14,752**	**14,752**	**-**	**14,649**	**14,649**	**-**
Cash and cash equivalents as at 1 January	**39,994**	**39,994**	**-**	**31,555**	**31,555**	**-**
Effect of exchange rate fluctuations on cash held	(5)	(5)	-	(5)	(5)	-
Cash and cash equivalents at the end of the year	**54,741**	**54,741**	**-**	**46,199**	**46,199**	**-**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity"

Group | **Per IFRS** | **(in HRK million)**

												Minority interests		
CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	**Total**
Balance at 1 January 2022	**1,907**	**1,570**	**-**	**-**	**3**	**12,634**	**323**	**229**	**(278)**	**1,338**	**-**	**20**	**1,183**	**18,929**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Balance at 1 January 2022	**1,907**	**1,570**	**-**	**-**	**3**	**12,634**	**323**	**229**	**(278)**	**1,338**	**-**	**20**	**1,183**	**18,929**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends	-	-	-	-	-	-	-	-	-	(1,115)	-	-	(62)	**(1,177)**
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Sale or cancellation of treasury shares	(30)	-	-	-	-	274	-	(517)	278	-	-	-	-	**5**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Group **Per IFRS** **(in HRK million)**

CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Minority interests Accumulated Other Comprehensive Income	Minority interests Other items	**Total**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	-	-	215	-	3	-	(223)	-	-	-	**(5)**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share based payments	-	-	-	-	-	-	-	3	-	-	-	-	-	**3**
Other increase or (-) decrease in equity	-	-	-	-	(10)	10	(12)	-	-	-	-	-	-	**(12)**
Total comprehensive income for the year	-	-	-	-	(115)	(29)	5	7	-	1,404	-	(3)	60	**1,329**
Balance at 31 December 2022	**1,877**	**1,570**	**-**	**-**	**(122)**	**13,104**	**316**	**(275)**	**-**	**1,404**	**-**	**17**	**1,181**	**19,072**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Group **Per IFRS** **(in HRK million)**

												Minority interests		
CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	**Total**
Balance at 1 January 2021	**1,907**	**1,570**	**-**	**-**	**41**	**12,755**	**327**	**(53)**	**(70)**	**978**	**-**	**26**	**1,143**	**18,624**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	
Balance at 1 January 2021	**1,907**	**1,570**	**-**	**-**	**41**	**12,755**	**327**	**(53)**	**(70)**	**978**	**-**	**26**	**1,143**	**18,624**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends	-	-	-	-	-	-	-	(817)	-	-	-	-	-	**(817)**
Purchase of treasury shares	-	-	-	-	-	-	-	-	(219)	-	-	-	-	**(219)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	(4)	-	-	-	-	-	**(4)**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Group **Per IFRS** **(in HRK million)**

CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Minority interests Accumulated Other Comprehensive Income	Minority interests Other items	Total
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	-	-	159	-	819	-	(978)	-	-	-	**-**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share based payments	-	-	-	-	-	-	-	-	11	-	-	-	-	**11**
Other increase or (-) decrease in equity	-	-	-	-	-	(280)	(3)	290	-	-	-	-	(25)	**(18)**
Total comprehensive income for the year	-	-	-	-	(38)	-	(1)	(6)	-	1,338	-	(6)	65	**1,352**
Balance at 31 December 2021	**1,907**	**1,570**	**-**	**-**	**3**	**12,634**	**323**	**229**	**(278)**	**1,338**	**-**	**20**	**1,183**	**18,929**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Bank **Per IFRS** **(in HRK million)**

												Minority interests		
CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	**Total**
Balance at 1 January 2022	**1,907**	**1,570**	**-**	**-**	**(4)**	**10,698**	**157**	**443**	**(274)**	**1,115**	**-**	**-**	**-**	**15,612**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Balance at 1 January 2022	**1,907**	**1,570**	**-**	**-**	**(4)**	**10,698**	**157**	**443**	**(274)**	**1,115**	**-**	**-**	**-**	**15,612**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends	-	-	-	-	-	-	-	-	-	(1,115)	-	-	-	**(1,115)**
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Sale or cancellation of treasury shares	(30)	-	-	-	-	274	-	(518)	274	-	-	-	-	**-**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Bank **Per IFRS** **(in HRK million)**

												Minority interests		
CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	**Total**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	1	127	-	6	-	-	-	-	-	**134**
Share based payments	-	-	-	-	-	-	-	3	-	-	-	-	-	**3**
Other increase or (-) decrease in equity	-	-	-	-	(7)	10	(11)	-	-	-	-	-	-	**(8)**
Total comprehensive income for the year	-	-	-	-	(91)	(29)	1	-	-	1,426	-	-	-	**1,307**
Balance at 31 December 2022	**1,877**	**1,570**	**-**	**-**	**(101)**	**11,080**	**147**	**(66)**	**-**	**1,426**	**-**	**-**	**-**	**15,933**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Bank **Per IFRS** **(in HRK million)**

CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Minority interests Accumulated Other Comprehensive Income	Other items	Total
Balance at 1 January 2021	**1,907**	**1,570**	**-**	**-**	**23**	**10,868**	**161**	**273**	**(68)**	**817**	**-**	**-**	**-**	**15,551**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Balance at 1 January 2021	**1,907**	**1,570**	**-**	**-**	**23**	**10,868**	**161**	**273**	**(68)**	**817**	**-**	**-**	**-**	**15,551**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends	-	-	-	-	-	-	-	(817)	-	-	-	-	-	**(817)**
Purchase of treasury shares	-	-	-	-	-	-	-	-	(217)	-	-	-	-	**(217)**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Form "Statement of changes in equity" (continued)

Bank **Per IFRS** **(in HRK million)**

												Minority interests		
CNB schedules	Capital	Share premium	Equity instruments issued other than Capital	Other equity	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated Other Comprehensive Income	Other items	**Total**
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	(4)	-	-	-	-	-	**(4)**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	-	-		-	817	-	(817)	-	-	-	**-**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share based payments	-	-	-	-	-	-	-	-	11	-	-	-	-	**11**
Other increase or (-) decrease in equity	-	-	-	-	-	(170)	(4)	174	-	-	-	-	-	**-**
Total comprehensive income for the year	-	-	-	-	(27)	-	-	-	-	1,115	-	-	-	**1,088**
Balance at 31 December 2021	**1,907**	**1,570**	**-**	**-**	**(4)**	**10,698**	**157**	**443**	**(274)**	**1,115**	**-**	**-**	**-**	**15,612**

Appendix 1 - Unaudited supplementary forms required by local regulation (continued)

Main differences between statutory financial report and supplementary forms required by local regulation

The main differences between the Statements of financial position captions disclosed in the statutory financial statements, and those prescribed by the CNB Decision relate to the following categories:

- Loans and advances are separated to customers and banks in statutory financial statements, while in CNB schedule there is only aggregated category Loans and advances.
- Obligatory reserve is disclosed within Balances with CNB in statutory financial statements and within Loans and advances in CNB schedule.

The main differences between the Income statement captions disclosed in the statutory financial statements, and those prescribed by the CNB Decision relate to the following categories:

- Effects arising from unwinding of discount related to loss allowance ("time value") are disclosed as interest income in statutory financial statements, while in CNB schedule are presented within Impairment of financial assets not measured at fair value.
- Positions Gains or losses on derecognition of financial assets and liabilities not measured at FVTPL, gains or losses on financial assets and liabilities held for trading and gains or losses on non-trading financial assets mandatorily measured at fair value from CNB schedule are disclosed aggregately in statutory financial statements on position Net trading income and translation of monetary assets and liabilities.
- Administrative expenses in CNB schedule contain Personnel expenses and Other operating expenses from statutory financial statements.

Appendix 2 - Supplementary financial statements in EUR (unaudited)

Income statement

As at 31 December

(in EUR million)

	GROUP		BANK	
	2022	2021	2022	2021
Interest income calculated using the effective interest method	358	360	267	273
Other interest income	4	5	1	4
Interest expense	(26)	(26)	(16)	(15)
Net interest income	**336**	**339**	**252**	**262**
Fee and commission income	273	248	149	133
Fee and commission expense	(60)	(51)	(41)	(34)
Net fee and commission income	**212**	**197**	**108**	**99**
Dividend income	-	-	46	16
Net trading income/(expense) and net gains/(losses) on translation of monetary assets and liabilities	34	35	29	32
Fair value adjustment in hedge accounting	-	-	-	-
Other operating income	11	12	5	5
Total operating income	**594**	**583**	**440**	**414**
Net impairment loss on loans and advances to customers	(15)	(7)	(1)	1
Other impairment losses and provisions	(10)	(41)	(2)	(40)
Personnel expenses	(147)	(139)	(95)	(91)
Depreciation and amortization	(33)	(34)	(24)	(25)
Other operating expenses	(154)	(134)	(96)	(79)
Share of profits from associates	1	1	-	-
Profit before income tax	**236**	**229**	**222**	**180**
Income tax expense	(42)	(42)	(32)	(31)
Profit for the year	**194**	**187**	**190**	**149**
Attributable to:				
Equity holders of the Bank	186	178	190	149
Non-controlling interests	8	9	-	-
	194	**187**	**190**	**149**

The income statement items were translated from the measurement currency (HRK) to the Euro at the fixed conversion to EURO exchange rate in 2022 (1 EUR = 7.5345 HRK) and in 2021 average exchange rate (1 EUR = 7.524183 HRK).

Appendix 2 - Supplementary financial statements in EUR (unaudited) (continued)

Statement of financial position

As at 31 December

(in EUR million)

	GROUP		BANK	
Assets	2022	2021	2022	2021
Cash and current accounts with banks	6,164	4,774	5,129	3,645
Balances with the Croatian National Bank	395	603	395	603
Financial assets held for trading	72	151	72	151
Derivative financial assets	87	6	39	5
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(65)	4	(39)	-
Loans and advances to banks	1,042	829	739	620
Loans and advances to customers	11,138	10,467	7,695	7,162
Investment securities	1,640	1,563	1,326	1,264
Investments in subsidiaries and associates	9	9	245	261
Other assets	41	27	25	16
Current tax assets	2	4	-	-
Property and equipment	229	238	141	143
Investment property	4	10	3	3
Non-current assets held for sale	42	3	1	1
Deferred tax assets	25	18	18	11
Intangible assets	58	49	40	34
Total assets	**20,883**	**18,755**	**15,829**	**13,919**

The items of the statement of financial position were translated from the measurement currency (HRK) to the Euro at the fixed conversion to EURO exchange rate as at 31 December 2022 (1 EUR = 7.5345 HRK) and closing exchange rate as at 31 December 2021 (1 EUR = 7.517174 HRK).

Appendix 2 - Supplementary financial statements in EUR (unaudited) (continued)

Statement of financial position (continued)

As at 31 December

(in EUR million)

	GROUP		BANK	
Liabilities	2022	2021	2022	2021
Current accounts and deposits from banks	322	172	224	254
Current accounts and deposits from customers	16,816	14,631	12,679	10,791
Derivative financial liabilities	3	13	1	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	1	-	-
Interest-bearing borrowings and other financial liabilities	650	928	434	479
Senior non-preferred debt	135	110	135	110
Other liabilities	10	2	9	1
Current tax liability	247	229	119	95
Accrued expenses and deferred income	55	42	22	20
Provisions for liabilities and charges	104	98	89	88
Deferred tax liabilities	10	11	4	4
Total liabilities	**18,352**	**16,237**	**13,716**	**11,842**
Equity				
Share capital	250	250	250	250
Share premium	206	206	206	206
Treasury shares	-	(37)	-	(36)
Other reserves	6	74	11	80
Fair value reserve	(16)	-	(13)	(1)
Retained earnings	1,926	1,865	1,661	1,578
Total equity attributable to equity holders of the Bank	**2,372**	**2,358**	**2,115**	**2,077**
Non-controlling interests	159	160	-	-
Total equity	**2,531**	**2,518**	**2,115**	**2,077**
Total liabilities and equity	**20,883**	**18,755**	**15,831**	**13,919**

The items of the statement of financial position were translated from the measurement currency (HRK) to the Euro at the fixed conversion to EURO exchange rate as at 31 December 2022 (1 EUR = 7.5345 HRK) and closing exchange rate as at 31 December 2021 (1 EUR = 7.517174 HRK).

Appendix 3 – Other legal and regulatory requirements

The Bank in accordance with Article 164 of the Credit Institutions Act, publishes the following information:

The Bank and the Group are providing the following banking services and core and ancillary financial services:

- acceptance of deposits or other repayable funds from the public and the approval of loans out of such funds, for its own account;
- acceptance of deposits or other repayable funds;
- lending, including consumer credit, mortgage credit and, where permitted by a special law, financing of commercial transactions, including export financing based on the purchase at a discount without recourse of noncurrent, non-matured receivables collateralised with a financial instrument (forfeiting);
- repurchase of receivables with or without recourse (factoring);
- financial and operating leasing;
- issuance of guarantees or other commitments;
- trading for own account or for the account of clients in: money market instruments; transferable securities; foreign exchange, including currency exchange transactions; financial futures and options; exchange and interest-rate instruments;
- payment services, in accordance with special laws;
- credit reference services, such as collection, analysis and provision of information on the creditworthiness of legal and natural persons that conduct their business independently;
- issuing and administering other means of payment, if the provision of such services is not considered the provision of money transmission services in the country and abroad;
- safe custody services;
- money broking;
- activities related to the sale of insurance policies in accordance with the law governing insurance;
- advice on capital structure, industrial strategy and related matters, and advice and services relating to mergers and the purchase of shareholdings;
- investment and ancillary services and activities prescribed by a special act governing the capital market that are not included in the previously listed core financial services;
- issuance of electronic money;
- property transaction services, real estate valuation, financial and technical supervision over the construction of real estate;
- compulsory pension fund management.

The Group operates on markets in Croatia, Slovenia and Bosnia and Herzegovina.

	Croatia	Bosnia and Herzegovina	Slovenia
Total revenue	3,486	362	630
Profit before tax	1,507	127	149
Income tax	1,743	12	28
The number of workers on the basis of equivalent full working time in 2022	3,381	577	706