Annual report for 2022

The future is already here

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HRVATSKA POŠTANSKA BANKA

Annual report for 2022

Zagreb, March 2023


The future
is eventful

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Introduction

The Annual report includes a summary of financial information, description of operations and audited financial reports together with the independent auditor's opinion for the year ended December 31, 2022, in English language. Original and official Annual report is published in Croatian.

Legal status

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

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

Abbreviations

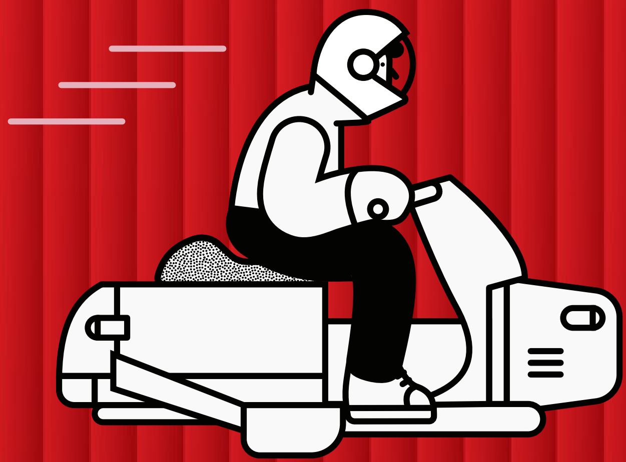
In the Annual report Hrvatska Poštanska Banka p.l.c. is referred to as «the Bank» or «HPB», Hrvatska Poštanska Banka Group is referred to as «the HPB Group» or just «the Group», the Croatian National Bank is referred to as «the CNB» or «HNB», Republic of Croatia is referred to as «RH» or «HR» and the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

Exchange rates

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

December 31, 2022 ....**1 EUR = 7.534500 KN** .... **1 USD = 7.064035 KN**

December 31, 2021 ....**1 EUR = 7.517174 KN**................. **1 USD = 6.643548 KN**

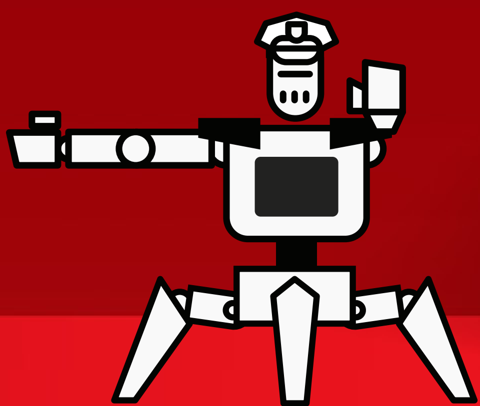


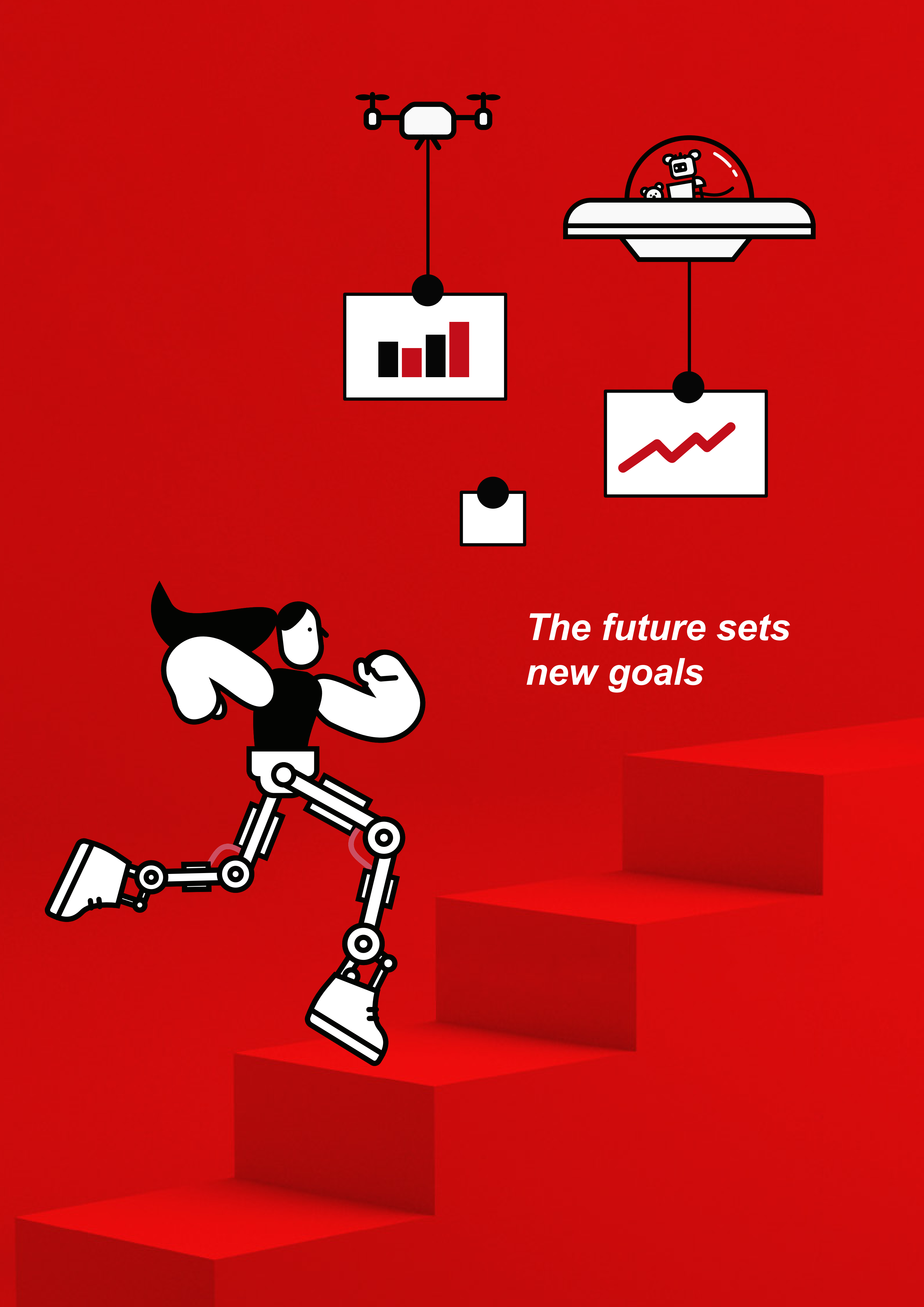
Mission

We create conditions for a better life in Croatia.

Vision

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




The future sets new goals

Key Financial Indicators

Group (HRK million)	2022	2021	2020	2019	2018
Basic Indicators					
Profit for the Year	954	203	183	147	156
Operating Profit	209	313	291	344	308
Total Assets	41,742	27,833	25,464	23,773	23,082
Loans to Customers	23,069	14,252	14,723	13,334	11,529
Received Deposits	34,969	23,441	21,207	20,063	20,143
Share Capital and Reserves	3,443	2,657	2,479	2,377	2,016
Other Indicators					
Return on Equity	78.56%	16.68%	15.10%	12.09%	12.84%
Return on Assets	2.29%	0.73%	0.72%	0.62%	0.68%
Operating Expenses[1] to Operating Income Ratio	79.18%	62.36%	64.10%	61.36%	61.98%

Bank (HRK million)	2022	2021	2020	2019	2018
Basic Indicators					
Profit for the Year	133	202	182	144	152
Operating Profit	178	312	289	323	303
Total Assets	34,381	27,833	25,464	23,773	21,233
Loans to Customers	15,874	14,252	14,723	13,339	11,062
Received Deposits	29,563	23,450	21,215	20,071	18,371
Share Capital and Reserves	2,614	2,650	2,473	2,370	2,003
Other Indicators					
Return on Equity	10.92%	16.64%	14.99%	11.84%	12.50%
Return on Assets	0.39%	0.73%	0.72%	0.60%	0.72%
Operating Expenses[1] to Operating Income Ratio	76.01%	62.03%	63.78%	61.27%	60.14%
Regulatory Capital	2.597	2.631	2.312	2.209	1.777
Capital Adequacy	23.57%	25.65%	21.82%	20.17%	17.86%

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

Statement by the president of the Management Board

Dear and esteemed shareholders,

it pleases me greatly that, as the President of the Management Board of Hrvatska poštanska banka, I can present to you the business results and other successes that we have achieved in 2022.

After several consecutive years in which results were achieved that market new records in HPB's corporate, the year behind us is marked by new record achievements, strong indicators of HPB's expansion and market share, but also by the exceptional engagement of almost every internal resource in adjusting Bank's operations to the new currency and entry into the eurozone.

On the other hand, exogenous circumstances and events that had not been recorded in the last few decades had an impact on the operations of all economic entities, an impact from which HPB was not spared.

However, I can say that with an agile approach and prudent decisions, we have successfully neutralized these unfavorable effects, and the positive trends of growth, record profitability and stable balance sheet set in the previous two years have not only been confirmed, but HPB has become a serious challenger to enter the company of the five largest of banks on the domestic market. Our efforts were also recognized by the investment public, so the market capitalization of the Bank increased in 2022 thanks to the double-digit growth of the share price, along with strong interest in the HPB share, for which we received the ZSE award for the share with the largest increase in trading volume.

Commentary on the financial results and position of HPB Group

In addition to the parent company, Hrvatska poštanska banka, HPB's subsidiaries have also contributed to HPB Group's results, as follows: HPB Invest d.o.o. (investment fund management company), HPB-nekretnine d.o.o. (a company specialized in real estate transactions) and newly acquired daughter companies Nova hrvatska banka d.d. (credit institution, from April 14, 2022) and Pronam Nekretnine d.o.o. (from July 4, 2022).

The start of previous year had been extremely demanding with the excalation geopolitical situation due to Russian invasion of Ukraine. The economic consequences of the war in Ukraine very quickly spilled over to the domestic market, and HPB readily reacted and acquired Sberbank d.d. on March 2 which was threatened with certain bank failure due to the sanctions imposed on entities from Russia. After the successful rehabilitation of Sberbank and the stabilization of operations, for which HPB committed considerable own funds in order to regain the trust of clients, HPB took control of the bank on April 14, after which it operates as part of the HPB Group as Nova Hrvatska banka.

The acquisition of Nova Hrvatska banka resulted, among other things, in a profit from a favorable purchase („badwill") in the amount of HRK 1,019 million, thereby bringing the consolidated profit of HPB Group to a record level of HRK 954 million. At the same time, net operating income increased strongly (by HRK 197 million or 24.3%), and within the structure of the income, both basic income categories have increased significantly - net interest income by HRK 195 million or 36% and net fee income by 78 HRK million or 43%. Against these positive acquisition effects, a negative result was recorded in the securities segment of HRK 8 million, while in 2021 this category of income had a significant positive effect of HRK 82 million. At the same time, apart from the previously mentioned acquisition effects, no other non-recurrent income items like the sale of non-strategic minority ownership shares were recorded in 2022 (on the basis of such effects, a one-time gain of HRK 31 million had been recorded in 2021).

The Group's balance sheet at the end of 2022 stands at HRK 41.8 billion, which represents a growth of HRK 14 billion or 50% achieved through a combination of organic growth and acquisitions. At the same time, loans to clients increased by HRK 8.8 billion or 61.9%, and deposits by HRK 11.5 billion or 49.2 percent. I am particularly proud that the quality of the assets has been significantly improved and HPB is today probably for the first time in its history a bank with a clean balance sheet, which is reflected in the share of non-performing exposures („NPL") of 6.1 percent.

Commentary on the financial results and position of HPB p.l.c.

On a non-consolidated level, HPB achieved a net profit in the amount of HRK 132.6 million in 2022, which mostly results from credit and deposit operations, which in turn mitigated the negative effects in the capital markets caused by the monetary tightening by the central banks, as well as completely neutralized rising expenses and costs as a result of growth price and inflation.

Net interest income growth (by HRK 8 million or 1.5%) is the result of the expansion of the loan portfolio in all segments and the increase in benchmark interest rates and, consequently, interest rates in interbank operations, which is why total interest income is up by HRK 4 million or 0.7%. At the same time, the Bank continues to effectively manage the sources of funds and their pricing. Accordingly, interest expenses fell by HRK 4 million or 12.0 percent in 2022.

Net income from fees and commissions increased by HRK 14 million or 7.3%, mostly due to the higher volume and number of transactions in card business and higher fees in the payment transactions by corporations and individuals.

Other non-interest income was adversely affected by negative trends in the capital markets for most of the year. Accordingly, from trading operations, which includes trading in foreign exchange, securities and accounting effects of securities valuation, the Bank's portfolio recorded a net loss of HRK 8.0 million (2021 profit: HRK 83.5 million), while the year-on-year decline was also influenced by the absence of one-off transactions such as those recorded in 2021.

Administrative costs are up by HRK 40 million or 9.3% as a result of intensive regulatory projects in 2022 (EURO, ESG and others), acquisition activities (NHB and Pronam Nekretnine) and a general increase in costs due to inflation, which primarily refers to the increase in energy prices compared to 2021. This also had direct effects on the Bank's profit and loss account as an increase in this category of costs, but also indirect - through an increase in the prices of goods and services that the Bank uses. At the same time, the Bank continues to invest in IT, physical and process infrastructure with the aim of eliminating technological bottlenecks and general improvement of service, which, in combination with the activation of newly acquired assets, led to an increase in depreciation costs. In addition, due to the increase in savings at the level of the entire banking system, liability insurance costs are again being imposed since the beginning of 2022 in accordance with legal provisions, which put additional pressure on the Bank's costs (+ HRK 10.8 million).

Impairment losses on credit exposures and other provisions amount to HRK 19.3 million, which represents a decrease of HRK 46.8 million or 70.7% compared to 2021 based on effective activities in the early and late collection phases. This resulted in positive effects due to the collection of insured and uninsured exposures that were previously reserved, and on the other hand prevented exposures from defaulting. The movement of exposures and value adjustments resulted in the best asset quality indicators in HPB's history, with an NPL share of 5.9% and NPL provisioning coverage of 78.2 percent, which is significantly higher than the market average.

At the end of 2022, the Bank achieved the historically highest assets level of HRK 34.4 billion, representing an increase of HRK 6.6 billion or 23.6 percent. According to the available unaudited CNB data, this growth is, on relative basis, the second highest year-on-year growth on the market.

The growth of the gross loan portfolio by 10.2% and deposits by 25.3% reflects the efforts that HPB invests in creating a quality relationship with clients based on loyalty and trust in a stable financial partner on the market, but also reflects the demand for HPB products and services.

In the last quarter of 2022, the Bank implemented a change in the business model for debt securities that were allocated to the business model of holding for collection and sale to the business model of holding for collection and consequently reclassifying the portfolio of said securities.

In 2022, HPB massively strengthened its liquidity position and has HRK 10 billion in cash and receivables from the CNB and other banks, as well as HRK 6 billion in marketable securities. In this way, the coefficient of liquidity coverage - LCR indicator is at a very solid level of 181 percent, while the coefficient of stable sources of financing - NSFR is 183 percent.

The Bank's capital and reserves at the end of 2022 amount to HRK 2.6 billion, i.e. over HRK 1,293 per share, whereby the realized net profit neutralized the effects of the reduction in reserves for the fair value of the portfolio, which is valued through other comprehensive income. HPB's robust capitalization is reflected in the total capital adequacy ratio, which is 23.57 percent on a non-consolidated basis.

HPB's operations in 2023

In 2023, the engagement of HPB's resources is focused on other development activities, wherein the merger-by-acquisition of Nova Hrvatska banka stands out. This merger-by-acquisition will increase the number of active clients by over 70 thousand and will provide access to the widest network of business units in Croatia. In addition to mergers, digitization will remain a continuous focal point of HPB activities, from monitoring trends in banking operations and non-banking competition on the one hand, to timely recognition of the increasingly sophisticated needs of clients on the other.

Along with development activities in the coming period, HPB will strive to maintain the good trends of achieving financial results that were set in the period between 2019 and 2022, and continue to create value for its shareholders on the basis of sustainable business and growth in market significance.

In conclusion, on behalf of the Management Board of Hrvatska poštanska banka, I would like to thank our valued clients and partners for their loyalty to HPB, which we will certainly justify in the future, our members of the Supervisory Board for their productive cooperation, advice and support, and to acknowledge all employees of the HPB Group for their quality and professional engagement in achieving all strategic and development goals that we have ultimately reached together so far.

Marko Badurina
CEO


The future requires commitment

Management Board of Hrvatska Poštanska Banka p.l.c.

Management Board	**mr.sc. Marko Badurina** *President of the Management Board*	**Anto Mihaljević** *Member of the Management Board*	**Ivan Soldo** *Member of the Management Board*
Area of responsibility	• Large Companies and Public Sector • Financial Markets • Compliance Division • Internal Audit • Management Board Office • HR • Legal affairs • Strategic development • Sustainability Office	• Retail • Direct Channels Banking • SME • Organization and Project Management • Marketing • Quality Service Management • Business Support • IT • Corporate Security • Procurement and General Affairs • Service • Development and Sales Personnel Office • Products and Delivery Processes Management Division	• Cred Risk Management • Strategic Risk and Risk Control • Collection Management • Financial Management • ALM
Experience	• 2019 – HPB d.d. President of the Management Board • 2017 – Sberbank d.d. Advisor to the Business Strategy Board for Financial Markets, Inves-tment Banking, Financial Institutions • 2013 – Sberbank d.d. Deputy Director of the Financial Markets Division • 2012 – Volksbank d.d. Deputy Director of the Financial Markets Division • 2007 – Volksbank d.d. Liquidity and Trading Management	• 2019 – HPB d.d. Member of the Management Board • 2019 – Kentbank d.d. Director for Retail • 2017 – Allianz Zagreb d.d. Director of Sales Support • 2015 – Zagrebačka banka d.d. Sales Management Director for Individual Banking Clients • 2010 – Zagrebačka banka d.d. The Director of the Region Zagreb • 2005 – Zagrebačka banka d.d. The Director of the Region Sjeverozapadna Hrvatska • 2003 – Zagrebačka banka d.d. Leasing Sales Manager • 2001 – Zagrebačka banka d.d. Head of Sales Controlling • 1999 – Fer count d.o.o. Trainee Auditor	• 2019 – HPB d.d. Member of the Management Board • 2018 – Raiffeisen Bank International AG, Executive Director, Risk Management of Financial Institutions and States • 2015 – Raiffeisen Bank International AG, Director, Risk Management of Financial Institutions and States • 2013 – Raiffeisen Bank International AG, Risk Manager, Senior Risk Manager • 2011 – Raiffeisen Bank International AG, Analyst, Senior Analyst banks and Financial Institutions • 2010 – Ipreo Ltd Analyst Global Markets • 2005 – FIMA Fas d.o.o. Assistant Director • 2005 – KPMG Croatia d.o.o. Junior Associate

Note: organizational jurisdiction as of December 31, 2022


The future
is being built
for everyone

Macroeconomic environment

Gross domestic product

Decomposition of gross domestic product (GDP) growth by components

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP – real growth rate	**(0.4%)**	**(0.4%)**	**2.5%**	**3.6%**	**3.4%**	**2.8%**	**3.4%**	**(8.6%)**	**13.1%**	**6.3%**
GDP – nominal growth rate	**0.3%**	**(0.3%)**	**2.6%**	**3.5%**	**4.6%**	**4.9%**	**5.5%**	**(7.9%)**	**15.4%**	**15.8%**
GDP deflator	**0.7%**	**0.2%**	**0.1%**	**(0.1%)**	**1.2%**	**2.1%**	**2.1%**	**0.7%**	**2.3%**	**9.4%**
GDP – real growth rate										
household consumption	(1.0%)	(1.5%)	0.1%	1.7%	1.7%	1.8%	2.2%	(3.2%)	5.2%	2.8%
government expenditure	0.1%	0.2%	(0.2%)	0.2%	0.4%	0.5%	0.6%	1.0%	0.6%	0.6%
gross fixed capital investment	0.2%	(0.4%)	1.5%	0.9%	0.3%	0.7%	1.7%	(1.1%)	0.9%	1.1%
net exports	(0.3%)	1.5%	0.4%	0.3%	(0.7%)	(1.8%)	0.0%	(5.8%)	5.8%	(0.1%)
change in inventory and other	(1.7%)	0.2%	(1.2%)	0.1%	(0.4%)	(0.7%)	1.1%	(0.1%)	0.6%	(0.0%)
Year-on-year growth of real GDP components										
household consumption	(1.5%)	(2.5%)	0.4%	3.1%	3.1%	3.3%	3.5%	(6.2%)	7.2%	1.8%
government expenditure	(0.1%)	1.6%	(1.6%)	0.5%	2.2%	2.3%	3.4%	3.4%	0.7%	0.5%
gross fixed capital investment	1.4%	(2.8%)	3.8%	6.5%	5.1%	6.5%	7.1%	(2.9%)	1.5%	2.6%
goods and services exports	2.5%	7.4%	10.3%	7.0%	6.8%	3.7%	6.8%	(25.0%)	10.0%	5.2%
goods and services imports	3.2%	3.5%	9.4%	6.5%	8.4%	7.5%	6.3%	(13.8%)	(7.5%)	(5.7%)

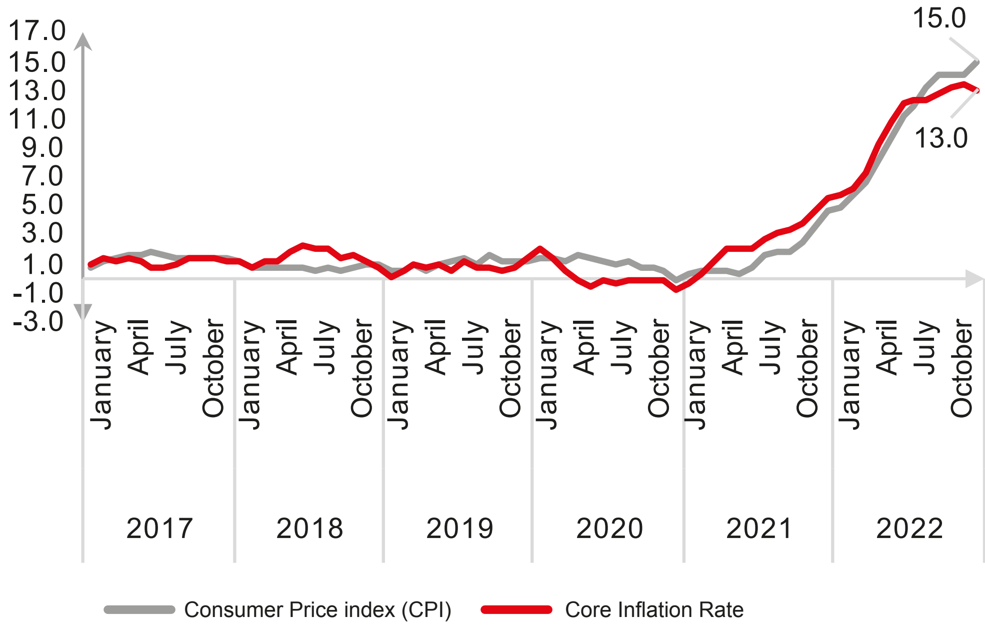
Source: CBS, *www.dzs.hr* (MSI Bruto domaći proizvod, obrazac 12.1.1.4.) analysis by HPB

Economic activity in the Republic of Croatia, which in 2022 is still under significant post-pandemic influences, is additionally marked by a series of crisis and geostrategic downfalls, energy shocks, rising food prices and the resulting strong inflationary pressure. Despite the aforementioned factors of instability, economic activity showed a strong level of resilience, in that matter there was a continuous series of seven consecutive quarters in which positive growth rate of real GDP was achieved. The main driver of economic activity is still the high level of foreign demand for domestic goods and services, supported by the weaker impact of the energy crisis on the economies of emission markets, and the significant contribution of household consumption, which is showing signs of slowing down due to significant inflationary pressures, i.e. a decrease in real income and consequently lower levels consumer optimism. The construction sector continues to contribute significantly to economic activity, driven by continued demand and rising real estate prices.

Based on the above, it is to be expected that the total growth of the real value of GDP in 2022 will reach the level of 6.3% compared to 2021.

Prices

Consumer price index (y-o-y changes in %)



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

The y-o-y rate of change in prices of selected components of the index of consumer prices

	2017	2018	2019	2020	2021	2022
Consumer price index – total	**1.1%**	**1.5%**	**0.8%**	**0.1%**	**2.6%**	**10.7%**
Food and non-alcoholic beverages	2.9%	1.0%	(0.1%)	1.9%	1.6%	15.8%
Alcoholic beverages and tobacco	2.4%	2.8%	4.4%	3.6%	5.9%	3.7%
Clothing and footwear	0.8%	(1.3%)	(0.9%)	(0.6%)	(0.1%)	7.0%
Housing, water, electricity, gas and other fuels	(2.7%)	2.7%	3.1%	(1.0%)	1.6%	10.0%
Furnishings, household equipment and routine household maintenance	0.1%	0.4%	0.8%	0.3%	1.0%	12.4%
Health	1.1%	1.4%	(0.9%)	1.2%	0.8%	2.0%
Transport	3.3%	3.5%	(0.3%)	(4.3%)	8.3%	14.2%
Communication	(1.6%)	(0.2%)	(0.2%)	1.5%	1.1%	0.3%
Recreation and culture	0.8%	0.9%	0.7%	0.1%	1.7%	7.2%
Education	0.8%	0.4%	0.8%	(0.4%)	0.5%	1.1%
Restaurants and hotels	5.1%	3.0%	3.0%	1.5%	2.9%	13.3%
Miscellaneous goods and services	0.3%	0.7%	0.3%	2.0%	0.9%	7.4%

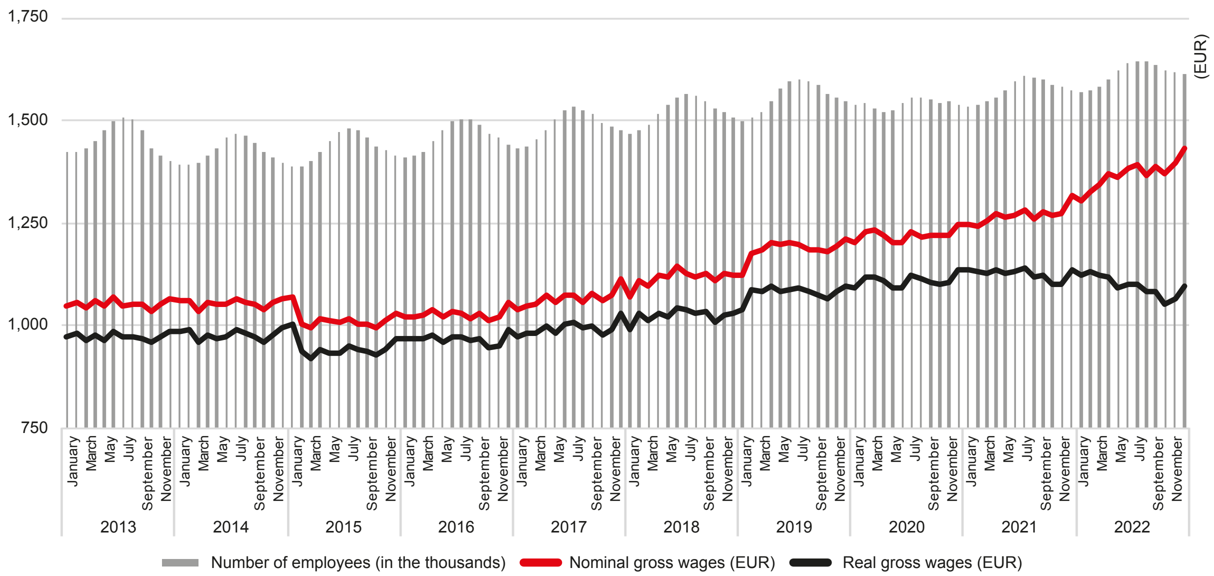
Source: Croatian Bureau of Statistics, *www.dzs.hr* (Form 1.2 Consumer price indices according to the ECOICOP classification); Processing: HPB

In 2021, the process of accelerated price growth has begun, so the consumer price index at the end of 2021 was 5.5 percent on an annual basis. The inflationary spiral was initiated by imported inflation, i.e. the rise in prices and raw materials on world markets, but in the following year, the war in Ukraine and the threat of food shortages would accelerate the overall increase in prices even more sharply, so at the end of 2022, inflation reached 15% measured by the consumer price index and 13 .1% measured by the basic index of consumer prices. The displayed inflation rates, such high levels of inflation have not been recorded since the national anti-inflation stabilization programs in the nineties, and it is to be expected that the negative effects will begin to be neutralized only in 2023.

The structure of price growth within the consumer basket shows in more detail the breadth of inflationary pressures since not a single item from the basket experienced a drop in costs compared to the previous year. It is additionally important to point out that the items of food and non-alcoholic beverages, as well as the costs of transportation, housing, water, electricity, gas and other fuels, due to the described macroeconomic factors, achieved the highest level of increase, those being components with the largest share in the total costs of the consumer basket.

Employment and salaries

Comparative movement of number and gross income of employees



Source: CNB, www.hnb.hr (Bulletin, seasonally adjusted time series), analysis by HPB

The downward trend in the number of employed persons in Croatia lasted until the beginning of 2014, after which the number of employed persons continued to increase. The trend is interrupted due to the COVID-19 pandemic in 2020. This change remained limited to the mentioned year due to the quick and comprehensive reaction of the central government, which limited the effects of the sudden contraction by implementing a job preservation program already in 2020.

The accelerated economic recovery that followed in 2021 resulted in additional demands for labor force, so a higher average number of employees (=1.57 million) was recorded than in the pre-crisis year 2019 (=1.56 million). In 2022, the continuation of the economic recovery further increased the average number of employed persons to 1.61 million persons.

The noticeable increase in the inflation rate that began in 2021 significantly accelerated in 2022, reaching record values. This was directly reflected in the difference between the nominal and real gross income. In terms of real gross income, it has reversed back to the level of 2020. The described consequence of the increase in inflation, along with other effects, will have a negative impact on consumer confidence and borrowing preferences of clients in the future business period.

Public finance

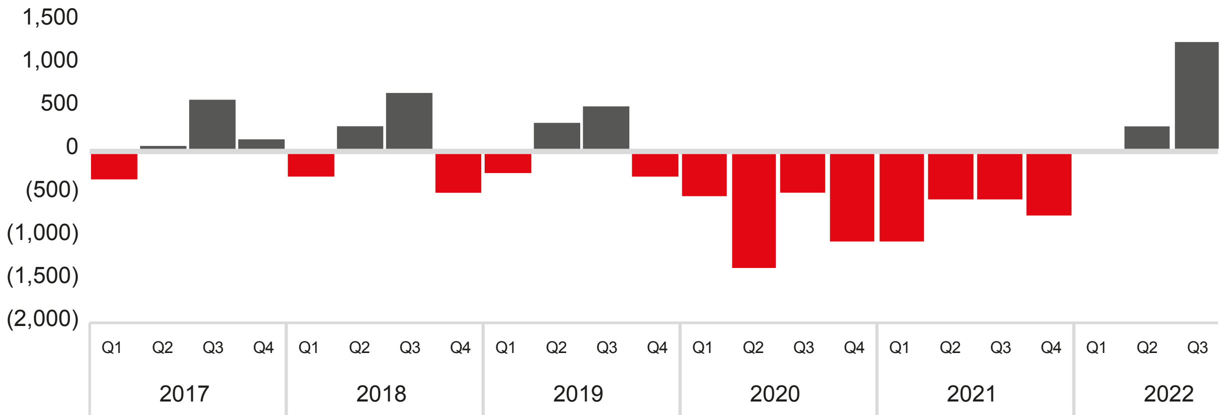
The extensive interventions of the central government in the form of subsidies that were necessary to neutralize the negative effects of the COVID-19 pandemic had a visible impact on the negative difference between total revenues and total expenditures of the general government spending in 2020 and 2021. Thus, current transfers in 2020 and 2021 amounted to EUR 11.7 and 12 billion, respectively. Overall, a deficit of EUR 3.6 billion was realized in 2020 and EUR 3.1 billion in 2021. The reduction of economic activity during the pandemic period is another important component that influenced the negative difference between income and expenditure. Looking at the interannual level, and after the reduction of epidemiological restrictions in 2021, the total revenues of the central government were 10.69% higher than those recorded in 2020.

In 2022, with the continuation of robust economic growth and demand for services and products of the domestic economy, the dominant effect is the overall increase in prices, which resulted in the largest differential between income and expenditure at the quarterly level. Thus, in the third quarter of 2022, a surplus of revenues over expenditures of EUR 1.3 billion was realized, and the cumulative for the first three quarters amounts to EUR 1.54 billion.

The long-term downward trend in interest rates has not yet reached the inflection point, so in the presented period, the downward trend in the interest costs in total expenditures continued. The interest burden on budget expenditures in 2021 amounted to 3.15%.

Taking a long-term view, the consolidated balance of the general government has been fully balanced in the last five years, except for two pandemic years.

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



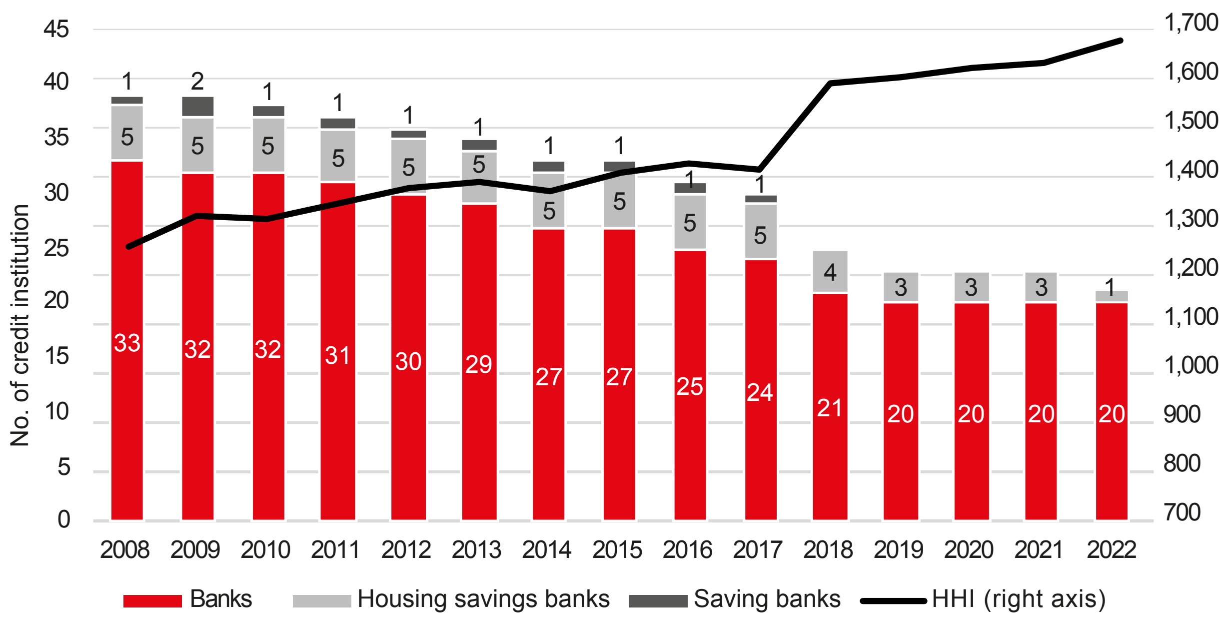
Source: CNB, *www.hnb.hr* (Non-financial accounts of general government, form h-i_1), Processing: HPB

Business environment

The number of credit institutions on the Croatian market is continuously decreasing due to the consolidation of the market and the cessation of operations of smaller banks. The onset of the COVID-19 crisis in 2020 slowed down the process of consolidation of the sector, but despite this, apart from the takeover of Sberbank d.d. on the part of the Bank, there was also the integration of two housing savings banks with parent companies, so as of December 31, 2022, there were 20 commercial banks and 1 housing savings bank operating on the market.

Sector concentration, measured by the market share of the largest 5 banks, increased from an already high 74% in 2017 to over 80% at the end of 2019, which further increased to 83.52% at the end of the 2022 business year. The Herfindahl-Hirschman asset concentration index of credit institutions, after several years of continuous mild growth, and due to realized business combinations in 2018 and 2019, exceeded the level of 1,600 points, which indicates a moderately concentrated market. As of December 31, 2022, the HHI index was 1,670 points, due to stronger organic volume growth and the consequent growth in market share of large banks.

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



Source: CNB, *www.hnb.hr* (Revised performance indicators of credit institutions from 2008 to 2022, Selected indicators of the structure, concentration and performance of credit institutions as at 31.12.2022.), Processing: HPB

A characteristic of the market in the region of Central and Eastern Europe is that foreign-owned banks have a dominant share, and Croatia is no exception. Thus, for many years, foreign-owned banks and housing savings banks have accounted for around 90% of the total assets of the credit institutions sector, and banks from the European Union, under Italian, Austrian and Hungarian ownership, dominate among them.

HPB is one of the two remaining state-owned banks, and as of December 31, 2022, it ranked sixth among credit institutions in the Republic of Croatia in terms of assets, with a market share of 6.01 percent (market share according to provisional unaudited data with NHB on the consolidated basis amounts to 7.63%). The remaining state bank - Croatia banka d.d. accounts for 0.32% of the system's assets, whereby state-owned domestic banks account for 7.95% of the share (which includes NHB), while privately owned domestic banks account for 92.05% of the share in the assets of credit institutions.

The total assets of the sector increased by a significant 4.19 billion euros in 2021, and in 2022 the increase in assets accelerated further, so on December 31, 2022, according to unaudited data, the y-t-d increase amounted to 9.47 billion euros. The acceleration of the growth of the sector's assets is under the direct influence of the deposit of funds in bank accounts for the purpose of converting the domestic currency into the euro and the expansion of bank lending due to the relatively high demand for loans.

In accordance with this, the majority of credit institutions operating in Croatia achieved an increase in assets, with liquid instruments growing the most within the structure (mainly deposits with the CNB) and loans and receivables given while keeping the quality of assets constant (the share of non-performing loans (NPLs) at the end of 2022 was 3.01%, and at the end of 2021 was 4.33%). Non-performing loans decreased in the portfolio of retail loans, so the share of NPLs decreased from 7.1% to 6.6%. The share of NPLs in the sector of non-financial companies decreased from 12.5% to 9.9%, primarily due to the economic recovery and the sale of non-performing loans.

According to temporary unaudited financial data, credit institutions operated with a net profit of 709.6 million euros in 2022, which is 4.87% less than in the previous year. The slight decrease in the profit realized in the business year is in a significant part the result of increased costs due to the preparation for the conversion of the domestic currency to EUR. As a result, the indicator of cost efficiency measured by the ratio of costs and income in 2022 is slightly higher than the previous business year, but a return of this indicator to pre-crisis values is to be expected. The characteristic of the sector is still a high level of capitalization, and liquidity indicators confirm the significance of the inflow of funds due to the currency conversion effect.

Key performance indicators of credit institutions (in %)

	2017	2018	2019	2020	2021	2022
Return on Assets (ROA)	0.85	1.21	1.37	0.61	1.17	1.00
Return on Equity (ROE)	5.91	8.4	9.82	4.4	8.75	8.18
Cost-income-ratio (CIR)	48.98	48.05	46.32	54.99	48.72	52.51
NPL share	8.73	7.49	5.47	5.42	4.33	3.01
NPL coverage	61.64	60.41	68.01	64.05	63.16	66.98
Capital adequacy ratio	23.8	23.14	24.8	24.92	25.85	24.57
Liquidity coverage ratio (LCR)	190.83	164.38	173.71	181.94	202.48	242.38

Source: CNB, *www.hnb.hr* (Revised performance indicators of credit institutions from 2017 to 2022, Selected indicators of the structure, concentration and performance of credit institutions on 31.12.2022), Processing: HPB

Credit institutions – overview of selected indicators of 2022 and ranking of a top-10 banks by category

Total asset share

Rank	Institution name	Share in total assets (%)
1	Zagrebačka banka d.d.	26.29
2	Privredna banka Zagreb d.d.	20.86
3	Erste&Steiermärkische Bank d.d.	17.93
4	OTP banka d.d.	10.07
5	Raiffeisenbank Austria d.d.	8.37
6	**Hrvatska poštanska banka d.d.**	**6.01**
7	Addiko Bank d.d.	3.01
8	Nova hrvatska banka d.d.	1.62
9	Istarska kreditna banka Umag d.d.	0.92
10	Podravska banka d.d.	0.80

Capital

Rank	Institution name	Capital Adequacy (%)
1	Zagrebačka banka d.d.	32.99
2	Addiko Bank d.d.	32.00
3	J&T banka d.d.	29.62
4	Privredna banka Zagreb d.d.	27.44
5	Samoborska banka d.d.	22.73
6	**Hrvatska poštanska banka d.d.**	**22.55**
7	Raiffeisenbank Austria d.d.	22.26
8	Karlovačka banka d.d.	20.04
9	OTP banka d.d.	19.58
10	Erste&Steiermärkische Bank d.d.	19.45

Liquidity

Rang	Naziv institucije	LCR (%)
1	J&T banka d.d.	1,109.49
2	Samoborska banka d.d.	1,006.72
3	Istarska kreditna banka Umag d.d.	612.43
4	Karlovačka banka d.d.	504.49
5	Addiko Bank d.d.	383.94
6	Imex banka d.d.	362.67
7	Croatia banka d.d.	266.28
8	Privredna banka Zagreb d.d.	259.25
9	Zagrebačka banka d.d.	256.11
10	Slatinska banka d.d.	247.14
17	**Hrvatska poštanska banka d.d.**	**181.25**

Return on equity

Rank	Institution name	ROE (%)
1	Imex banka d.d.	20.25
2	Karlovačka banka d.d.	18.18
3	Samoborska banka d.d.	17.02
4	Croatia banka d.d.	12.77
5	Banka Kovanica d.d.	12.76
6	Erste&Steiermärkische Bank d.d.	10.67
7	Agram banka d.d.	10.41
8	Istarska kreditna banka Umag d.d.	10.39
9	OTP banka d.d.	9.85
10	Zagrebačka banka d.d.	9.68
15	**Hrvatska poštanska banka d.d.**	**5.03**

Return on assets

Rank	Institution name	ROA (%)
1	Imex banka d.d.	1.82
2	Samoborska banka d.d.	1.74
3	Karlovačka banka d.d.	1.45
4	Banka Kovanica d.d.	1.38
5	Zagrebačka banka d.d.	1.27
6	Privredna banka Zagreb d.d.	1.27
7	OTP banka d.d.	1.26
8	Erste&Steiermärkische Bank d.d.	1.05
9	Agram banka d.d.	1.05
10	Istarska kreditna banka Umag d.d.	0.85
17	**Hrvatska poštanska banka d.d.**	**0.43**

Profitability

Rank	Institution name	Net income (000 EUR)
1	Zagrebačka banka d.d.	237,741
2	Privredna banka Zagreb d.d.	189,218
3	Erste&Steiermärkische Bank d.d.	129,707
4	OTP banka d.d.	89,621
5	Raiffeisenbank Austria d.d.	37,025
6	**Hrvatska poštanska banka d.d.**	**17,566**
7	Addiko Bank d.d.	6,822
8	Karlovačka banka d.d.	6,156
9	Agram banka d.d.	6,026
10	Istarska kreditna banka Umag d.d.	5,511

Source: CNB, *www.hnb.hr* (Selected indicators of the structure, concentration and performance of credit institutions on 31.12.2022., temporary unaudited data), Processing: HPB


The past is interesting, the future even more so

Management Board Statement of Condition of HPB p.l.c.

History and Important Events Development of Hrvatska Poštanska Banka p.l.c.

Establishment and beginnings of HPB

Bank was established in October in 1991 with its registered office in Zagreb, and its first business address was in Tkalčićeva street 7. Shares of the Bank were subscribed and taken over by 50 founders/ shareholders, business partners of Croatian Post and Telecommunication "HPT" which was the largest shareholder, and which ensured the premises and the first personnel for the operation of the Bank. As a universal banking organization, the Bank was registered for "all cash, deposit, credit and guarantee operations with legal persons and all banking operations with natural persons, including also the provision of payment services".

Due to retail and corporate needs for banking services, especially in local areas with no banks, the Bank had relied on wide network of HPT offices at the time where banking services were introduces including receiving retail deposits, corporate deposits – HPT-business partners. From May in 1992 the Bank started to provide international foreign exchange payment services and to collect the first foreign exchange deposits. During that year, the advantages of the newly established financial institution were also recognized, in addition to the founders and "HPT"'s business partners, by smaller private businesses which started to place their deposits into the Bank. Under the Regulation on Recovery of Debts and Funds Placed With Poštanska štedionica Beograd – Croatian subsidiary, Zagreb (dated 25th March 1992, Official Gazette 15/ 92), the Bank was named as legal successor of the mentioned subsidiary which led to a substantial contribution to its potentials and activities (exchanging passbooks and current accounts, taking savers and depositors, recovering claims).

In the beginning the Bank was doing mostly retail business by receiving HRD (dinar) and HRK funds from individuals, paying salaries and pensions, placing surpluses on money markets and making short-term loans to legal entities supporting their working capital, mostly to "HPT", its business partners and founders of the Bank. Even under such complex working conditions, the Bank managed to record a constant balance sheet growth and profit.

In 1995, a building was purchased at Jurišićeva ulica 4, which became the Bank's new headquarter, which has not changed until today.

Business expansion

The first branch was opened in Split in April in 2003, thereafter the expansion of the business network was recorded, which over time grew to 56 business units as there are today.

In July in 2005 the Bank established HPB-nekretnine, a real estate limited liability company and HPB Invest, a limited liability company for investment funds management, forming thus the Hrvatska poštanska banka Group.

The development of the Group continued in 2006 with the establishment of HPB Stambena Štedionica, a joint stock company for housing savings, which was successfully merged with the parent company on December 2, 2019. as a result of business rationalization and optimization.

Diversification of the ownership structure and capital strengthening

Through public share offering in September 2015, the Bank's equity was increased by HRK 550 million by mixed private and public equity investments. The Bank's shareholding structure includes pension funds, investment funds and other private investors which paid up HRK 305.9 million and acquired the 25.5% ownership stake. The Republic of Croatia paid up HRK 244.1 million and its and the related persons' ownership stake fell from 99% to 74.5%. This share increased in 2021 to 77.3% through the transfer of shares due to the closure of the Prosperus Economic Cooperation Fund, which was a shareholder of the Bank, to participants in the fund: the Croatian Bank for Reconstruction and Development, which transferred its share to the Republic of Croatia and the Fund for Financing the Decommissioning and Disposal of Radioactive and Spent Nuclear Fuel of the Krško Nuclear Power Plant, which is 100% owned by the Republic of Croatia.

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

In 2018, for the first time in its history, the bank recognized and utilize the opportunity for inorganic growth, and on July 14, 2018, it acquired a 100% ownership stake in the company JADRANSKA BANKA p.l.c. ŠIBENIK (JABA), which was previously in the resolution process. Immediately after the acquisition of JABA, the process of its merger with the Bank began, which was successfully completed on April 1, 2019, after which the former JABA continued to operate within the Bank as a business unit - regional center, and positive synergic and financial benefits were achieved on the Bank's capital.

ECB comprehensive assessment

At the end of 2019, HPB entered the scope of a comprehensive assessment by the ECB, together with four other domestic banks. In May 2020, the ECB confirmed the quality of the Bank's assets and the resilience of its balance sheet, and the preconditions for initiating Croatia's accession to the European Monetary Union (EMU) were met.

Acquisition of Sberbank p.l.c.

Due to the beginning of Russian aggression against Ukraine, the Croatian branch of Sberbank experienced a sudden deterioration in its liquidity position due to the uncontrolled withdrawal of clients' funds, and as a result, the bank was opened for resolution on March 1, 2022.

HPB performed extremely well in the period after 2019 and significantly strengthened its capital position, which made it ready for acquisitions. When the Single Resolution Board and the CNB invited interested banks to buy Sberbank p.l.c., HPB reacted very quickly and agilely and took over a 100% ownership stake in Sberbank p.l.c. for the amount of HRK 71,000,000.00 in an urgent procedure, for which it was necessary to obtain all necessary regulatory approvals. In this way, the enormous systemic risks that could have occurred if Sberbank p.l.c. Croatia had failed uncontrollably were eliminated.

After the successful implementation of the resolution of Sberbank, the Council of the Croatian National Bank ("CNB"), at its session held on April 13, 2022, adopted a Decision ending the resolution procedure for Sberbank p.l.c. - under resolution on April 13, 2022, at 11:59:59 p.m.

HPB took over control and management of Sberbank on March 14, 2022, since when it has been operating within the HPB Group as Nova hrvatska banka p.l.c. In this way, HPB Group is additionally strengthened with a network of branches for business with retail and corporate clients, thus continuing to realize its strategic goals of strengthening the domestically owned banking group, as well as contributing to the welfare and economic development of the Republic of Croatia.

In order to maximize synergic effects and benefits for shareholders and clients, HPB and NHB decided on December 20, 2022 to initiate the procedure for the legal-formal and business merger of Nova Hrvatska banka p.l.c. to HPB, which is planned to be implemented as soon as possible.

Acquisition of company Pronam Nekretnine Ltd.

On July 4, 2022, the Bank has closed a transaction of the acquisition of receivables and ownership stake related to loan & deposit and other relationships of Nova hrvatska banka p.l.c. with companies Pronam Nekretnine Ltd. and SBERBANK EUROPE AG in liquidation (hereafter: SBAG) in total transaction amount 74,000,000.00 EUR. With transaction in question, as a package deal, the Bank has acquired as follows:

- 100% ownership share in company Pronam Nekretnine Ltd.
- receivables rights that SBAG has towards Pronam Nekretnine Ltd. based on a loan due in 2027, with a total nominal principal outstanding of 5,300,000.00 EUR;
- receivables rights that SBAG has towards NHB based on subordinated loan and MREL loan which are due between 2024 and 2029, with a total nominal principal outstanding of EUR 66,000,000.00.

In this way the Bank is continuing with optimization of the HPB Group structure, ensures business continuity through the acquisition of real estate properties which are used for core activities of the HPB Group members, minimizing future expenditures and expenses arising from debt instruments. This transaction marks the end of inherited legacy loan & deposit business relationship of NHB, and thus of HPB Group, with SBAG.

In September 2022, HPB begun the process of merging Pronam Nekretnine Ltd. with the aim of achieving additional positive effects on the financial position and results.

Project of transition to the single EU currency

In accordance with the defined plans and deadlines for replacing the Croatian kuna with the euro, HPB was one of the first banks to successfully adapt all its systems to the euro and started regular work immediately on Monday, January 2, 2023, from 8:00 a.m. In accordance with its significant role in the area of pension payments, payments to pensioners throughout Croatia are ensured immediately and without delay, as well as all other banking services.

Considering the large scope of various business activities that had to be carried out for the purpose of timely adaptation, hundreds of individual development activities, meetings and coordination of teams were carried out, over 80 thousand working hours of IT experts were recorded on this project, along with about 250 smaller and larger changes to the IT system, making this one of the biggest projects in the Bank's history.

Overview of key events in HPB p.l.c. corporate history

10/1991
Establishment of HPB
as a subsidiary of Croatian Postal And Telecommunication - HPT

12/1995
Purchase and relocation to a new headquarters
in a building in Jurišićeva 4, Zagreb

04/2003
The first HPB branch opened in Split

Mid 2005
Company rebranding
and adoption of new logo and a new slogan („Moja Banka")

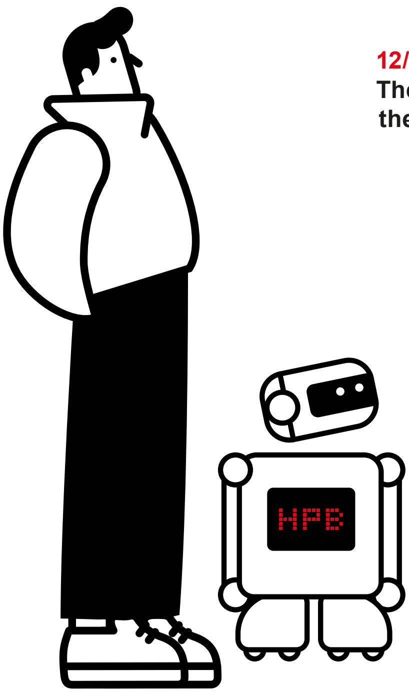
12/2010
The Republic of Croatia becomes the majority shareholder through recapitalization

09/2015
HPB recapitalization
through combined private and public offer (HRK 550 million)

07/2018
Acquisition of Jadranska banka p.l.c. Šibenik

03/2022
Acquisition of Sberbank p.l.c., which becomes Nova hrvatska Bank p.l.c.

07/2018
Acquisition of Pronam-Nekretnine Ltd. Zagreb



Business Activity of Hrvatska poštanska banka

The Bank offers all banking and financial services with the focus on retail and corporates, among which:

- all types of deposit and credit products and services for corporates and retail in domestic and foreign currency,
- transaction services,
- issuing guarantees, avals and similar products,
- factoring, financial lease services,
- securities services,
- services related to lending, such as collecting data, making analysis and providing information on the creditworthiness of legal and natural persons carrying out their business independently;
- performing business related to the sale of insurance policies in accordance with the regulations governing insurance,
- issuing electronic money,
- issuing and managing other payment instruments if the provision of these services is not considered to be payment service provision in accordance with a separate law,
- other banking products and services (safes, Western Union services).

Regulatory Framework

Conditions for the Bank's founding and business as a credit institution in the Republic of Croatia are regulated by the Credit Institutions Act (Official Gazette 159/ 2013, 19/ 2015, 102/ 2015, 15/2018, 70/2019, 47/2020, 146/2020 and 151/2022) and the Companies Act (Official Gazette 152/ 2011, 111/ 2012, 68/ 2013 and 110/ 2015, 40/2019, 34/2022 and 114/2022).

On the day of the introduction of the euro, close cooperation ends and full membership of the Croatian National Bank in the unified supervisory mechanism begins, and therefore the Law on Credit Institutions has been amended in such a way that the provisions governing processes and procedures under conditions of close cooperation are repealed. As a result of the above, the provisions on the basis of which the Croatian National Bank acted in accordance with the European Central Bank's instructions were changed (eg in the procedures for issuing and revoking authorizations for credit institutions and approving internal models).

Offering of investment services and investment activities in the Republic of Croatia are regulated by the Capital Market Act (Official Gazette 65/2018, 17/2020, 83/2001 and 151/2022), the by-laws of Croatian Financial Services Supervisory Agency and EU regulation markets throughout the European Union and payment services offered by the Bank are regulated by the Payments Act (Official Gazette 66/2018 and 114/2022), together with certain by-laws.

The Bank's core business is also regulated by the Croatian National Bank's by-laws as the top regulator which regulates the Bank's core business and operations related to the core busines, and primarily the Decision on the management system ("Official Gazette" no. 96/2018, 67/2019, 145/2020 and 145/2021).

During 2022, through project activities, the Bank successfully harmonized its operations with the directions of the Law on the introduction of the euro as the official currency in the Republic of Croatia (Official Gazette 57/2022 and 88/2022) in order to achieve the preconditions for the implementation of the rules for conversion, supply and replacement of the currency kuna for euro, dual circulation, dual reporting, application of the principle of continuity of legal instruments, budgets, financial plans, business ledgers, financial statements, etc., in the process of introducing the euro as a new national currency. Also, during 2022, project activities were started for the purpose of implementing the process of merging Nova Hrvatska banka p.l.c. into the HPB p.l.c. operations.

In addition to the above, the uncertainty of the development of the COVID-19 pandemic and the consequent unpredictability of the timing and scope of the market's economic recovery continue to be significant events that have an impact on business operations, whereby the Bank continues to support clients and adequately assess their creditworthiness and carefully consider the appropriateness of classification into certain risky groups.

Likewise, the current Russian-Ukrainian conflict, which geopolitically did not have a direct significant impact on the Bank, but despite this, there is a possible indirect impact on the business following the overall development of the macroeconomic scenario, which is why the development of events and possible impact on the Bank's financial position and future business results are being actively monitored. .

In its operations, the bank applies European Union regulations, which consist of published European Union regulations adopted by the European Parliament and the Council, the most significant of which is Regulation (EU) no. 575/2013 of the European Parliament and the Council of June 26, 2013 on creditworthiness requirements for credit institutions and investment companies and amending Regulation (EU) no. 648/2012 ("Official Gazette" EU L 176/2013), and delegated and implementing regulations of the European Commission whose provisions are directly applied in the Republic of Croatia in the operations of credit institutions, as well as other relevant regulations governing the operations of legal entities in the Republic of Croatia, as and legal entities and credit institutions with headquarters in the Republic of Croatia in the part in which their business is conducted abroad (for example, regulations of other countries and international agreements concerning the prevention of money laundering, payments in international payment transactions, etc.).

The Croatian Financial Services Supervisory Agency is responsible for supervising the provided investment and connected services and the performance of investment activities. The Croatian Deposit Insurance Agency controls the fulfillment of obligations of credit institutions under the Deposit Insurance Act (Official Gazette 146/2020 and 119/2022). The Croatian National Bank implements the rules and determines the procedures and instruments for the resolution of credit institutions in accordance with the Resolution of Credit Institutions and Investment Companies Act (Official Gazette 146/2020 and 21/2022).

The Personal Data Protection Agency monitors application of regulations in the area of personal data protection, primarily Regulation (EU) 2016/679 of the European Parliament and of the Council of April 27, 2016 on the protection of individuals in connection with the processing of personal data and on the free movement of such data and on the repeal of Directive 95/46/ EC (General Data Protection Regulation) and the Law on the Implementation of the General Data Protection Regulation ("Official Gazette" 42/2018).

The Bank uses the EU regulation which includes regulations adopted by the Parliament and the Council. The most important is Regulation (EU) 575/ 2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) 648/ 2012 (Official Journal of the European Union L 176/ 2013). There are also delegated and implementing regulations of the European Commission which concern conducting business of credit institutions in Croatia, as well as other relevant acts which regulate corporate business activities in the Republic of Croatia, and corporates and credit institutions with headquarters in Croatia in part in which they conduct business with foreign entities (e.g. acts of other countries, international contracts related to anti-money laundry, international payments etc.).

The Bank as an obligator of Act on the Prevention of Money Laundering and Terrorist Financing (OG 108/2017, 39/2019 and 151/2022), undertakes in its operations measures, actions and procedures prescribed by this Act in order to prevent and detect money laundering and terrorist financing and implement preventive measures to prevent use of the financial system for money laundering and terrorist financing. In addition to the above, the Bank, as an obligee of the implementation of measures and procedures to prevent money laundering and terrorist financing, is also guided by the issued EBA Guidelines on money laundering and terrorist financing risk factors (EBA/GL/2021/02) and Compliance Guidelines (EBA/GL /2022/05) which represent additional expectations of the CNB with which credit institutions should comply and apply them in their operations.

In its operations, the Bank takes measures to reduce the risk of fraud, and reports to the regulatory authorities on fraud events in accordance with Directive (EU) 2021/832 of the ECB of March 26, 2021 on reporting requirements for statistics on payment transactions (ESB/2021/13) and the Decision on providing information on fraud (Official Gazette 75/2020).

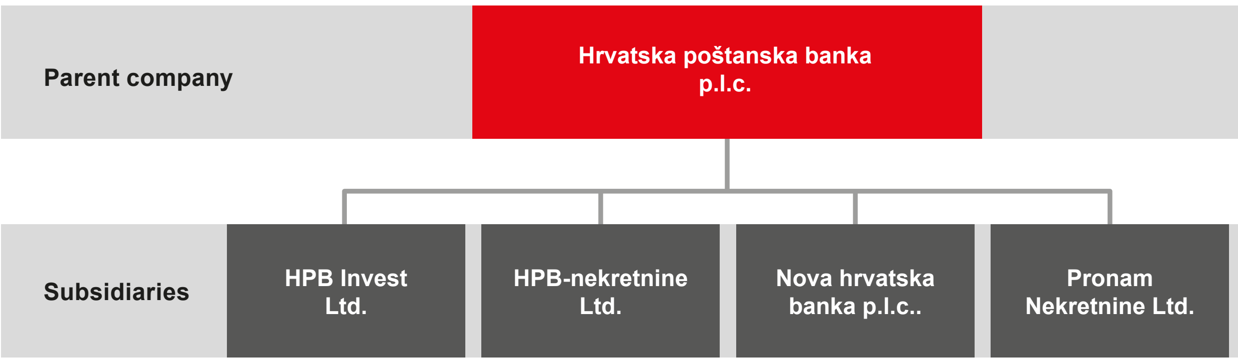
Given that the Republic of Croatia, directly or through companies owned by it, is the majority owner of the Bank's shares, the Bank applies as relevant the special laws and bylaws for companies in majority state ownership.

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

HPB p.l.c. is part of a group of linked entities according to the Credit Institutions Act, and is 100% owner of the following companies which make HPB Group:

	Industry	State	Ownership %
HPB Invest Ltd.	Investment fund management	Croatia	100
HPB-nekretnine Ltd.	Real estate and construction	Croatia	100
Nova hrvatska banka p.l.c.	Financial services	Croatia	100
Pronam Nekretine Ltd.	Real estate and construction	Croatia	100

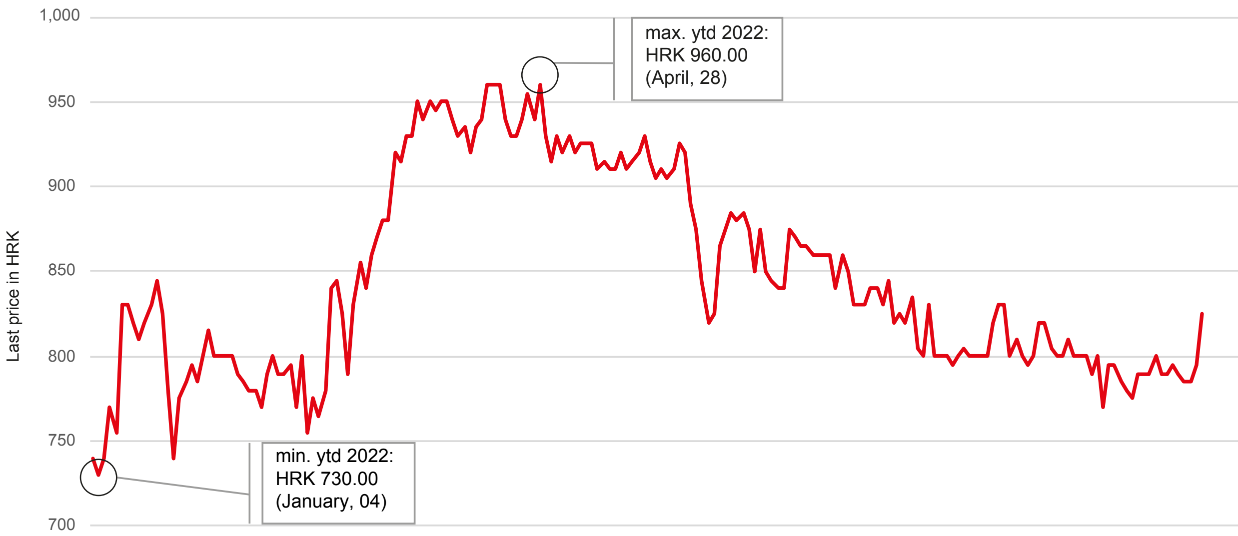
Hrvatska poštanska banka p.l.c. is not a member of a concern in terms of the Companies Act.



HPB-R-A Share

HPB Stock is listed on ZSE's Official market. Last share price at the end of 2022 amounted to HRK 825.00 (trading day 28.12.2022), representing an increase by 13.01 percent in comparison with the last recorded price achieved in 2021 (HRK 730.00 trading day 30.12.2021).

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

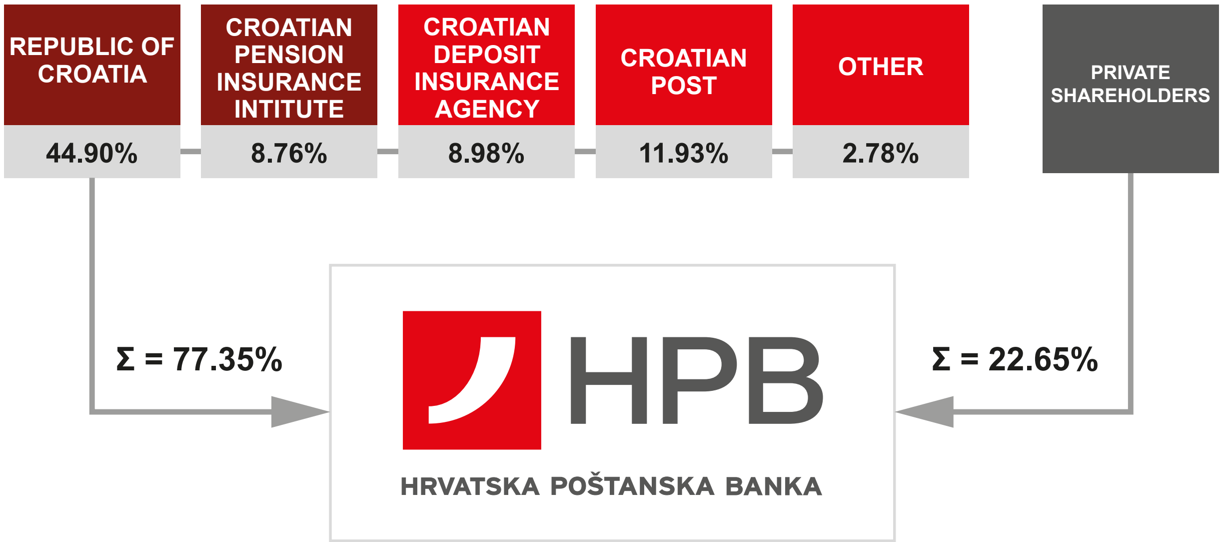


Stock data and details

Issue date	December 12, 2000
ISIN	HRHPB0RA0002
Segment	Official market of the Zagreb Stock Exchange
Listed quantity	2,024,625
Share price as at December 28, 2022 (in HRK)	825.00
Market capitalization (in HRK million)	1,670.32

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

On December 31, 2022 the Bank's ownership structure was as follows:



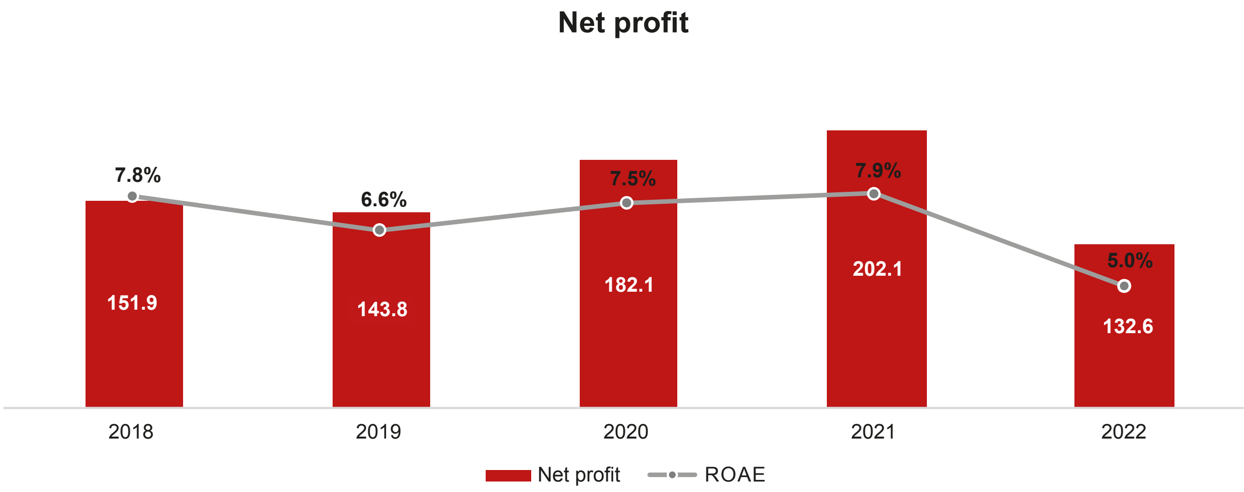
- Equity holdings managed by the Ministry of Physical Planning, Construction and State Assets
- Companies owned by the Republic of Croatia and other related parties
- Private institutional shareholders and individuals

Source: CDCC

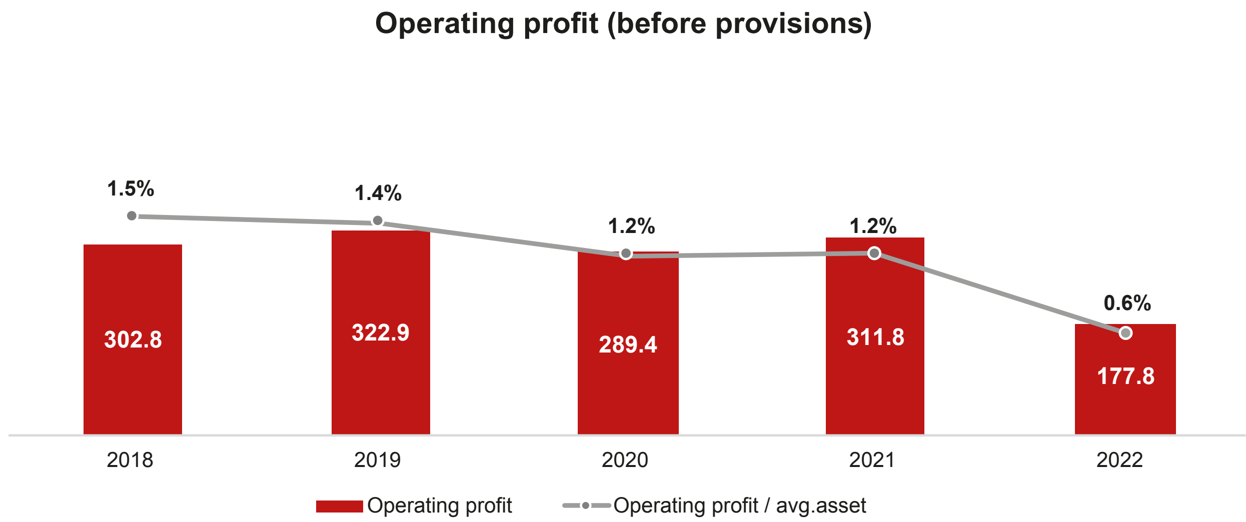
On December 31, 2022 Republic of Croatia through the Ministry of Physical Planning, Construction and State Assets and other companies under its control, controlled 77.35% of the equity and voting rights of the Bank.

Business and financial overview

In 2022 the Bank made a net profit after tax in the amount of HRK 132.6 million.

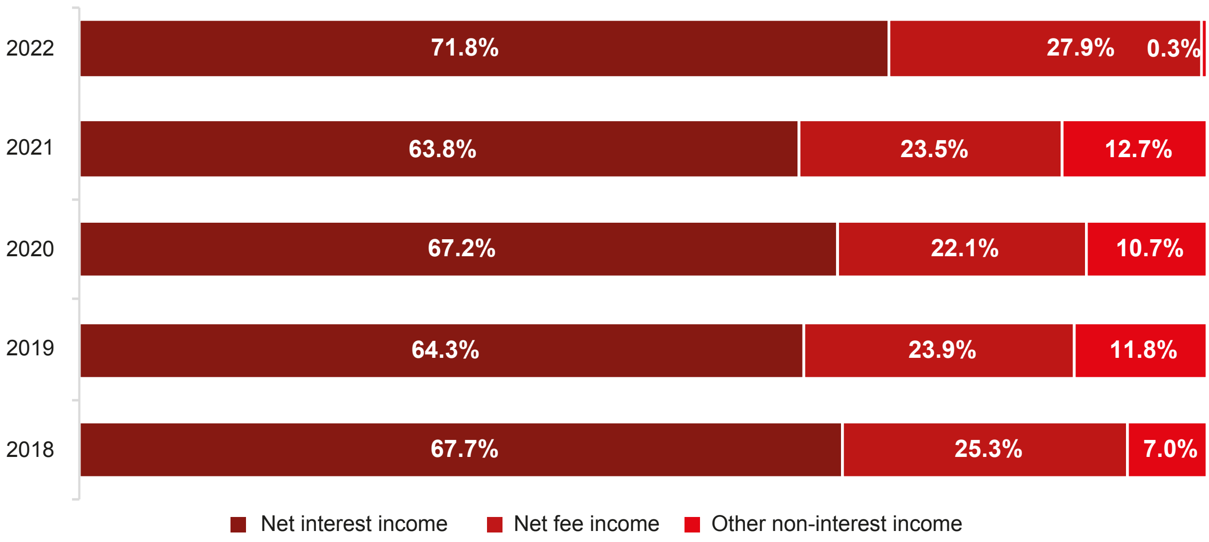


Operating profit before provisions amounts of 177.8 million. Reversal of provisions for loan losses and other impairments of financial and non-financial assets amounts HRK 31.1 million, while cost from the reversal of provisions for liabilities and charges amounts to HRK 50.4 million.



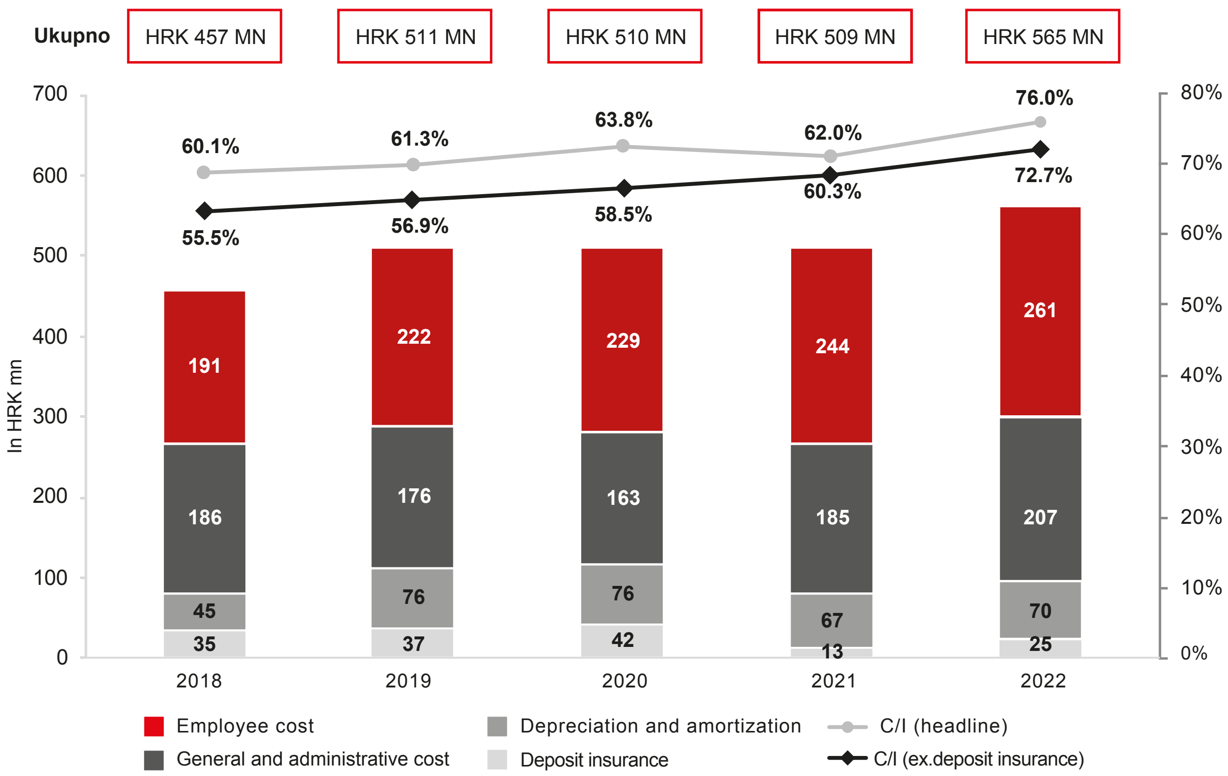
Net interest income in the amount of HRK 532.1 million generates share of 71.8 percent in the total operating income.

Net income composition for the period 1.1.- 31.12.

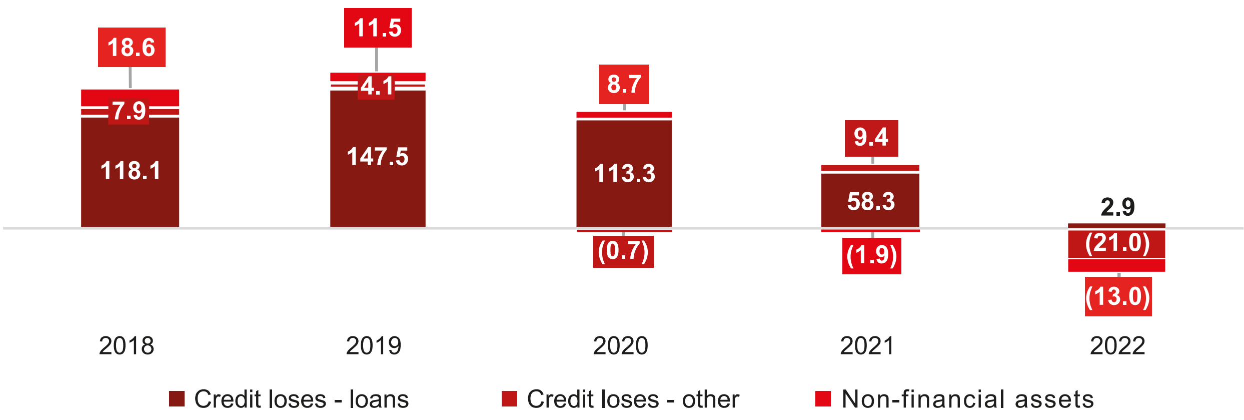


Operating expenses increased, mainly due to higher depreciation costs, employee costs due to investment in IT internal resources as well as general and administrative expenses due to activities aimed at timely resolution of regulatory obligations and improvement of the Bank's process in order to eliminate technological debt. The Bank continues its efforts to manage costs as efficiently as possible.

Cost management 2018 – 2022

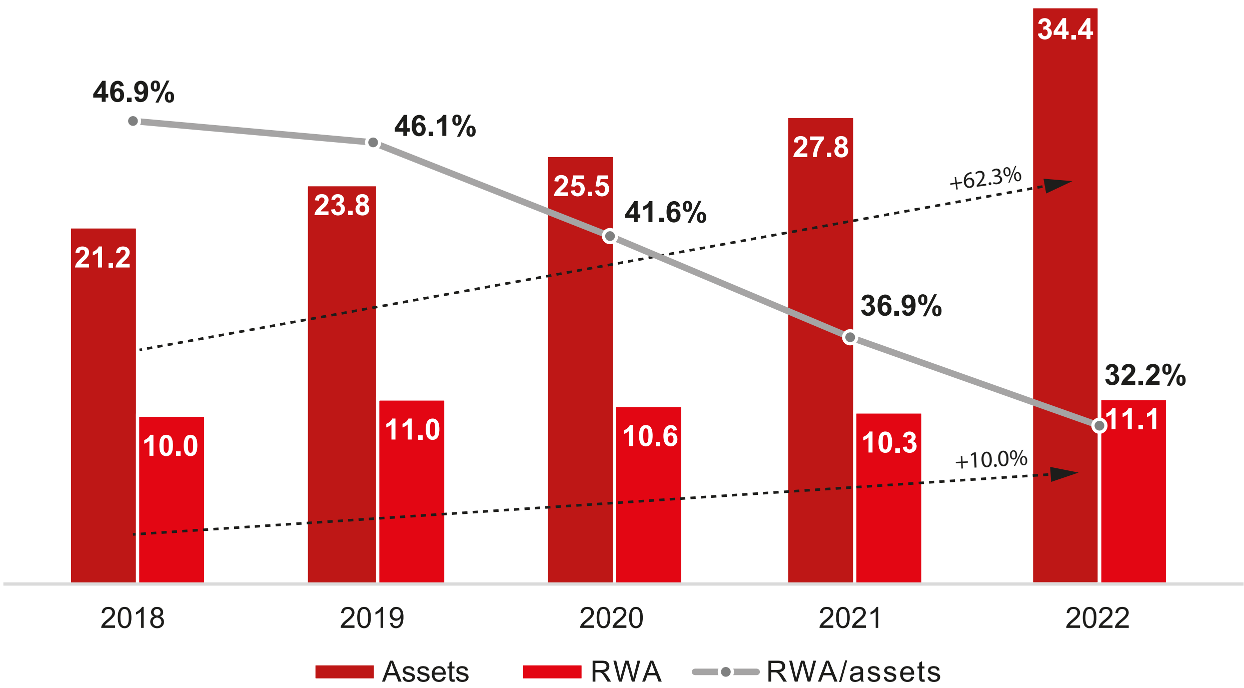


Provisions for losses



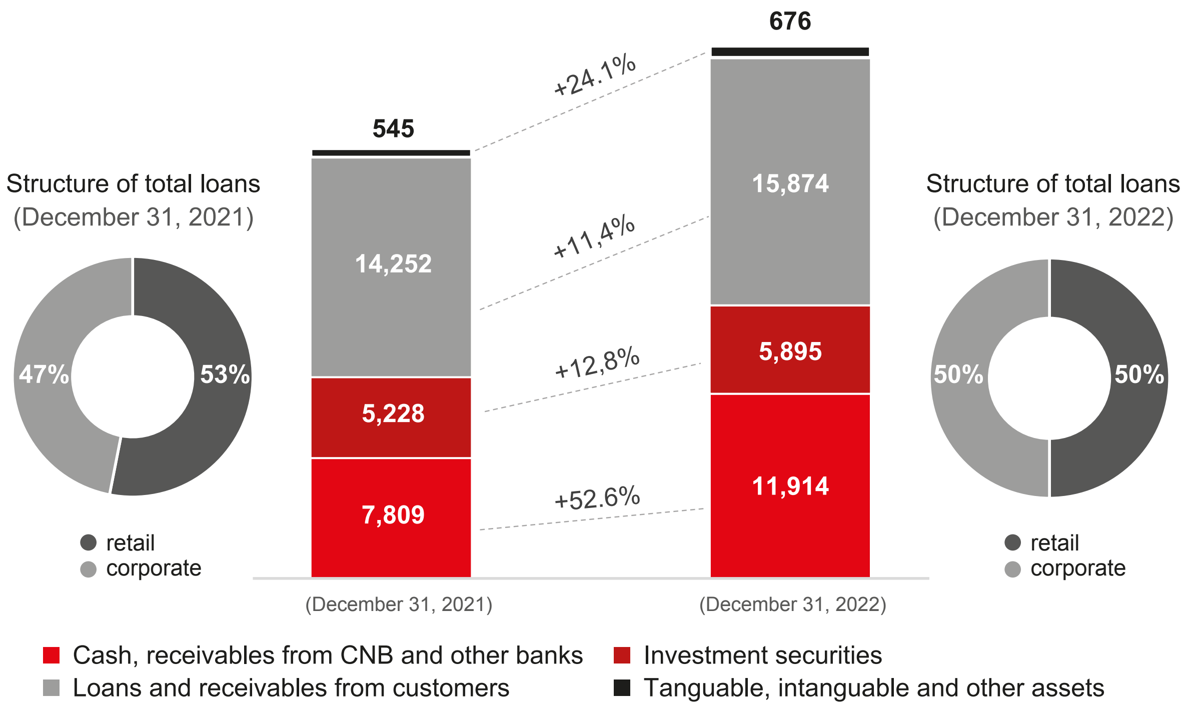
Assets and RWA

In parallel with the growth of assets and loans and receivables from the Bank's customers, the risk-weighted assets decreased as a result of the strengthening of the capital management culture.



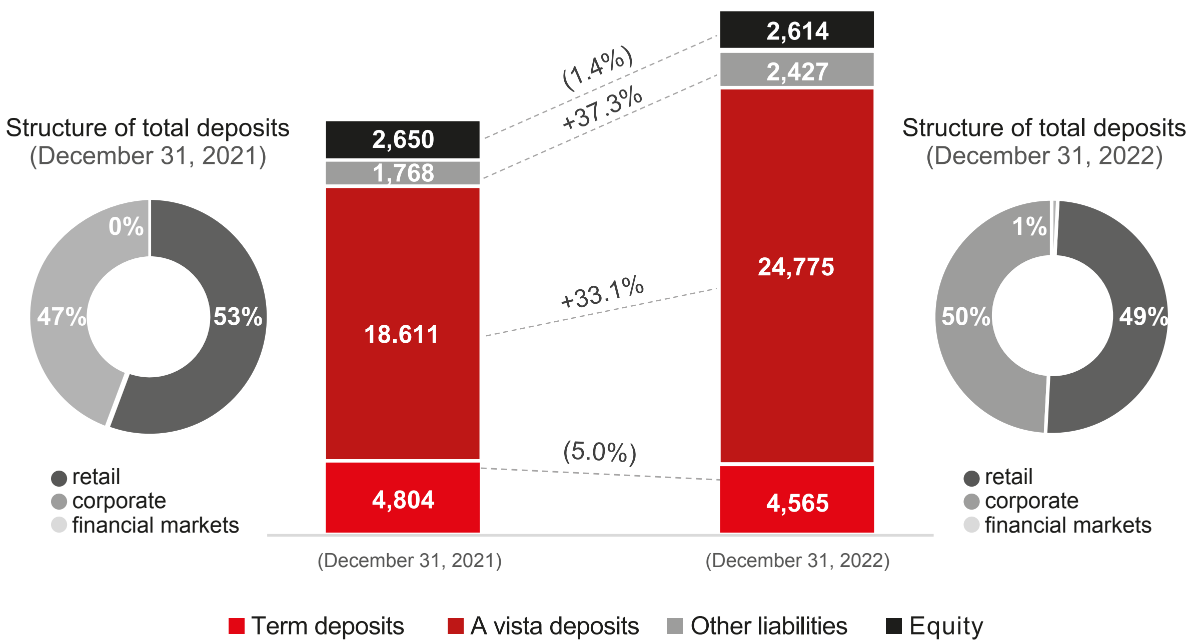
At the end of 2022, the Bank's assets amounted to HRK 34,390 million, which is an increase of HRK 6,557 million (+23.6 percent) compared to 2021. With 46.2 percent, loans and receivables from customers make up the most significant part of the asset structure.

Assets composition



Total deposits grew by 25.3%. Retail and corporate are on the rise, with a noticeable spillover from term deposits (- 5.0%) to a vista deposits (+ 33.1%), which has a favorable impact on the average cost of resources

Liabilities and equity composition




The jobs
of the future
are already here

Description of business segments

RETAIL SEGMENT OPERATIONS

500 thousand total clients	**15 thousand** new clients

Retail business is done through the Bank's own network of 6 regional centers, 51 center and 5 outlets, e-branch and HP's distribution channel with more than 1,000 post offices distributed all over the Republic of Croatia.

In the past year, the Bank once again recorded the stability of retail deposits, which as of December 31, 2022, amounted to HRK 14.4 billion, 16.9% more than the year before. Of this, a-vista deposits amounted to HRK 11.0 billion, and term deposits amounted to HRK 3.5 billion, which shows the multi-year continuation of the trend of term deposits flowing into a vista deposits, which grew by 27.6%.

In addition to the overflow in a vista, the year 2022 was marked by a fall in interest rates on liabilities, which resulted in a 40% reduction in interest costs compared to the year before.

The total retail gross loan portfolio at the end of 2022 amounted to HRK 8.6 billion, which is a growth of 3.6% compared to the previous year. In 2022, a decline in the market share of total loans was recorded by 0.1 p.p. compared to the same period last year, and the share of housing loans increased by 0.2%.

The growth of the deposit and loan portfolio is the result of stable operations, quality services, client loyalty and recognition of the Bank as a safe financial participant in Croatian banking industry.

2022 achievements:

Sales / development

In 2022, in the part of the gross loan portfolio related to housing loans, HPB grew by 12%, which is a continuation of the Bank's strategy to make a bigger step in safer collateralized placements, but also offer quality products and services to younger clients a secure and long-lasting customer base of the Bank.

In addition to participating in APN where in 2022 over 550 loans with a total volume of HRK 420 million were granted, which is a 60% higher volume and 40% more loans compared to the previous year, the Bank is still working to create preconditions for the acquisition of new clients and continued to build its image of 'Bank for Important Life Decisions' and a reliable partner for housing loans.

51 center and 6 outlets
6 regional centers
Payment services in HRK and contracting
Bank's products and services in 1,015 post offices
for retail clients while services for corporate clients are available at 992 locations;

Loan services to retail clients in HP financial corner at 142 locations.


The future
is 0-24 h
HPB

DIRECT CHANNELS DIVISION OPERATIONS

Card business

603 ATM	**678 thousand** valid cards
15 various card products	**2,831** EFT-POS terminals

Based on the agreed strategic cooperation with the Visa card scheme, the Bank is in the process of card migration, and it is planned to complete the migration of credit cards in addition to the already migrated portfolio of debit cards. Thus, the migration of cards to the Visa brand along with the card design of the Croatian heritage will enable the visual identity of the Croatian bank through all types of cards.

The Visa brand is one of the most important card brands in the world, and with the transition, all the conditions and benefits that clients had until now with their existing cards will be transferred to the new Visa card, along with possible improvements in functionality for certain types of cards.

During 2022, the Bank completed the migration of debit cards and at the same time the consolidation of the debit portfolio of cards from Cirus Maestro, Mastercard Debit and Visa Electron to the Visa debit card was carried out and thus 100% of the debit portfolio of valid cards was migrated.

On 31.12.2022, the Bank had a total of 678,703 valid cards, which is 54,751 less than in 2021, and as a result of the consolidation and cleaning of the debit card base from three brands to Visa Debit. Of the total number of valid cards, 97.70% refer to cards issued to retail clients, and 2.30% are issued to corporate clients.

The bank realized a total of 34.7 million transactions, which represents an increase of 10.86% compared to the previous year. The total volume of transactions was HRK 14.4 billion, which represents an increase of 5.88% compared to 2021. The number of bank card transactions was 30.3 million, which represents an increase of 7.83% more than in 2021. These results were partially achieved, because in 2022, cooperation and activities with clients, card users for card activation, in cooperation with Visa, Žuti klik, etc., were started, which are planned to be carried out further.

Acquiring part of the business or accepting cards in the ATM part, HPB is very competitive on the market. One part of the ATMs is set up in cooperation with the contractual partner SIA, while the other half of the network is set up by HPB in places that are primarily in line with the needs of clients, both the population and the economy.

The number of EFTPOS terminals is nearly the same as compared to last year, and the number of ATMs has increased by 20% (mostly related to the SIA partner network).

The increase in the number of transactions with cards of other banks at the Bank's acceptance points is 38.8%.

In 2022, the Bank implemented electrochemical protection of ATMs and thereby complied with the regulatory requirements regarding the safety of its ATMs. Electrochemical protection has been installed in half of the ATM network, and the rest of the network will be installed in the next year.

In accordance with the Bank's business strategy, in which digitalization of business is one of the guidelines, the "Mobile Payment" project started in 2022, which will introduce the card virtualization service and enable payments with the bank's virtual cards via the Google Pay system.

The Bank has successfully completed the migration to the new currency, with which we would like to highlight the very intensive activities that were carried out on the exchange of currency at all ATMs from HRK to EUR, and at the same time it was possible to withdraw cash with a debit card without charge at all ATMs in the Republic of Croatia as recommended by the regulator.

Digital banking

Digital banking services are recording continuous growth, especially mHPB mobile banking. At the end of 2022, we recorded 117 thousand users of mHPB mobile banking for natural persons, which represents an increase of 9% compared to 2021. The number of transactions is 19%, and the volume is 28% higher than in 2021.

The number of business entities that have a contracted Internet banking service has grown to more than 10,000, which represents an increase of 10% compared to last year. Also, the number of business entities with contracted mobile banking, which is even 30% higher compared to 2021, also recorded a large increase.

Our clients increasingly rely on digital channels in their daily business with the Bank. Therefore, our strategic determinant in the development of digital solutions is to monitor and respond to client requests, but also to proactively provide services that we recognize as future trends.

2022 achievements:

The year 2022 was marked by the introduction of the euro, as the new national currency, and thus intensive activities to ensure that digital banking channels are fully adapted to the euro currency. In addition, we worked intensively on the development of new solutions with an emphasis on improving the user experience on digital channels.

- **PSD2**

  Adaptation of the dedicated PSD2 interface to the transition to the euro and continued further development of the PSD2 interface - functionally and for the purpose of improving the user experience

- **mHPB application**

  Continuous upgrade of mobile banking for retail and corporate clients with new functionalities, including:
  - Redesign of the entire mHPB application with the aim of improving the user experience while maintaining all existing functionalities
  - Adaptation of the application related to the transition to the new euro currency
  - Ability to review and change client data
  - Ability to review and change settings related to Privole
  - Improvement of messages delivered to clients via mHPB.

- **Open a SuperSmart account online**

  Intensive activities to define/implement the online contracting process of the HPB SuperSmart current / gyro account via the eBranch without the need to come to the physical branch.

- **E-branch**

  Further activities to improve e-Poslovnica as much as possible organizationally so that personal bankers take over as many communications with clients as possible via chat, audio/video calls and functionally. By introducing complete online contracting of a transaction account through e-Business, we are opening a significant acquisition channel for new clients who, after fully contracting a transaction account online, can further contract/modify/negotiate a significant number of products and services from the Bank's portfolio online via e-Business.

- **Internet banking**
  - Adaptation of the application related to the transition to the new euro currency
  - Functionality of retrieving statements by cards

We continue to monitor market trends and work on the digitalization of business in order to provide our clients with solutions that are safe, fast and easy to use.

Overview of Retail Products and Services: :

Product group	Products and services in 2022
Accounts	• Current account - domicile currency • Basic Account / Basic account for sensitive groups - domicile currency • Special purpose accounts - domicile currency/fx • Switching payment accounts - domicile currency/fx • Giro account – domicile currency/fx • Foreign currency account • SuperSmart HPB account - domicile currency • Payment operation – national/foreign, cash/non-cash, domicile currency/fx • Reporting – monthly/annually • Business with foreign checks • Standing orders • SEPA direct debit
Savings	• A vista deposit – HRK/fx • Children's open savings Flexy Kockica - domicile currency • Non-purpose term deposits – HRK/fx • Multipurpose term deposits – HRK/fx • Term savings with multiple deposits – HRK • Rent deposits- HRK/fx
Loans	**Housing loans** • Housing consumer loan in HRK with currency clause EUR with a combination of fixed and variable interest rates • Housing consumer loan in HRK with currency clause EUR • Housing consumer loan in HRK without a mortgage with a currency clause EUR • Housing consumer loan in HRK with a currency clause EUR based on the Housing Loan Subsidy Act • Housing consumer loan in HRK with currency clause EUR for the purchase of apartments under the Program Socially encouraged housing program A • Housing consumer loan in HRK with currency clause EUR based on housing savings of HPB-housing savings bank **Multipurpose loans** • Tourist loan in HRK with currency clause EUR • Credit for the costs of enrollment in a private high school or grammar school, for undergraduate, graduate and / or postgraduate studies in HRK with a currency clause in EUR **Non-purpose loans** • Non-purpose cash loan in HRK with currency clause EUR • Non-purpose cash loan in HRK with currency clause EUR with a combination of fixed and variable interest rate • Lombard loan secured by term deposit • Non-purpose cash mortgage loan in HRK with currency clause EUR • Non-purpose cash loan for housing loan users based on the Housing Loan Subsidy Act

Product group	Products and services in 2022
Cards	• Debit Mastercard contactless card • VISA Electron/Debit current account card • Maestro current account card • Mastercard debit gyro account card • VISA prepaid card • VISA prepaid card for young people - IDEEEŠ! • Visa installments card • Gold Mastercard card • Mastercard Pošta & HPB card • Mastercard credit card (revolving) • Mastercard deferred payment card (charge)
E - banking	• mHPB • mToken • Internet banking • SMS / e-mail services • e-account • e-cash • e-citizens
HPB Invest	• HPB short-term euro bond fund • HPB short-term bond fund • HPB bond fund • HPB Bond plus fund • HPB Global fund • HPB Equity fund
Croatia osiguranje	• CPI with non-purpose loans • CPI with housing loans • CO Assets • Accident insurance policy • Travel health insurance policy • Life insurance policy BASIC • Life insurance policy PREMIUM • EXCLUSIVE Plus • Policy Krug života • Policy Riziko plus • Health insurance policy • Voluntary pension fund
Other	• Brokerage services through the channel “Kreditni posrednici” • RoboAdvice application consulting services - determining the suitability of open-end investment funds for the client • Assessment of the suitability of open investment funds for the client • Execution only • Exchange business • Safes


The future
demand good
services

CORPORATE SEGMENT OPERATIONS

Large corporate and public sector

1,485 total clients	**6.2 mlrd** loan volume
883 local government and self-government units and affiliated companies	**11.5 mlrd** deposit volume

The large corporate and public sector division provides banking services to 1,485 clients, striving to continually improve services and innovate to better meet customer needs. Although in 2022 the impact of the COVID-19 pandemic and the impact of the new situation in Ukraine will continue to be felt, a significant increase in the number of clients has been recorded, especially in the segment of business with local governments, which is influenced by the launch of the pilot project Payments of Legal Entities in Hrvatska pošta.

The level of gross loans to legal entities in the Large corporate and public sector amounts to HRK 6.4 billion, which is 18% more than the previous year. In the structure of gross loans to legal entities, loans to companies and republic funds have a dominant share, with HPB continuing to support companies and activities that generate value for the economy.

During 2021, we continued to enable businesses that were unable to meet their financial obligations due to the effects of the COVID-19 pandemic and war in Ukraine and continued contract assistance measures, such as approval of new liquidity loans. As additional assistance measures, the Bank, in cooperation with CBRD and HAMAG-BICRO, offer new credit lines to ensure liquidity on favorable terms.

Total deposits of corporate clients of the large corporate and public sector (excluding bank deposits) as at 31 December 2022 amounted to HRK 12.0 billion, of which demand deposits amounted to HRK 11.1 billion and primarily related to clients from the central government segment. The recorded increase in deposits also stems from a significant acquisition of clients and system liquidity.

The situation of high liquidity of the overall financial system and strong interbank competition posed a major challenge for the Bank. The development in the segments of large companies, central government and local governments in 2022 was influenced by two important factors, namely adjustments to the risks of recovery from the primary pandemic strike that occurred in 2020 and 2021 and exceptional price competition in the banking sector.

The large corporate segment showed recovery during 2022, but there is still an absence of significant investments. Demands for liquid assets and refinancing of existing obligations of high-quality clients in search of more favorable interest rates and reduction of financing costs prevail. The largest increase in loans was achieved in the large corporate segment as a result of intensive acquisition activities throughout 2022, which recorded growth in all quarters of 2022. By focusing on creditworthy clients and financing working capital, the absence of investment loans was compensated.

The central government and local self-government units based their financing strategies through 2022 on one simple idea - financing through invitational tenders - with the aim of obtaining as cheap funds as possible. In these conditions, the Bank has created its position by trying to realize those opportunities that do not represent too great a price compromise. The central government realized a significant part of its financial needs on the market by issuing bonds, significantly reducing the space for lending, and in the part of credit funds acquired through invitational tenders. The bank maintains its position through the financing of long-term placements.

Local self-government units realized a certain number of investments in communal infrastructure, in which the Bank achieved a quality result and significant growth of the loan portfolio. A significant step forward is also visible in the financing of working capital, both existing and new clients..

The development of new products and strengthening of the Bank's specialization continued, especially in the segment of co-financing projects from european funds through the established EU desk in order to provide expertise and achieve excellence in monitoring clients of both public and private sector in financing and implementing projects.Project financing has also been established with the aim of monitoring large projects in infrastructure, energy, tourism, etc., in order to be in line with expected increase in demand for investment loans.

Successful business cooperation with CBRD and HAMAG-BICRO in all programs, as well as cooperation with the EBRD and the EIB continues.

As before, the large corporate and public sector will continue to cooperate intensively in the coming period and provide credit support to large economic entities, state units, as well as local government units. The focus will be on the dispersion of the loan portfolio in favor of large privately owned companies and local governments and on the growth of non-interest income with the continuous improvement of quality and expansion of the range of services.

New products for business entities, redesign of Internet banking for business entities and improvement of payment and transaction solutions are being prepared.

Small and medium enterprises

11,320 total clients	**2.4 bn*** loan volume
6 regional centers	**2.76 bn** deposit volume

*included craftsmen

The SME business sector provides banking services to more than 11,000 clients, with an emphasis on business innovation and continuous improvement of financing opportunities.

In 2022, we continue to grow through a new investment cycle and contribution to the Croatian economy by encouraging micro, small and medium-sized enterprise projects, and the primary focus is on IT, renewable energy sources, the food industry, the recovering tourism sector, and retail chains. The SME sector pays special attention to the manufacturing industry focused on economically strategic sustainable development and new employment.

As at 31 December 2022, gross placements of business entities in the SME Sector amounted to HRK 2.5 billion, while value adjustments amounted to HRK 411.9 million. Total deposits of business entities in the SME Sector amounted to HRK 2.8 billion, with a vista deposits amounting to HRK 2.5 billion and term deposits to HRK 0.3 billion.

HPB is continuously engaged in creating complete financial solutions for small and medium-sized enterprises with an increasing emphasis on the micro segment.

With the aim of expanding the network of banking services and bringing the bank closer to clients in every part of the country, HPB continues its cooperation with strategic partner Croatian Post. In this way, the bank enabled entrepreneurs to contract transaction accounts, digital banking services, cards and loans, as well as payment transactions in places where there is no branch or center, and became the largest distribution channel of basic banking products and services in the Republic of Croatia.

The SME business sector is focusing special efforts on streamlining the client portfolio and complying with regulatory requirements, which are manifested through an increase in the share of active clients and a fully updated client base from the regulatory aspect.

Overview of products and services in the corporate segment:

Product Group	Products and services in 2022
Payment operations	• Transaction account • Entrepreneur Packages • Cash pooling • Escrow account • Cash payments • Non-cash payments • Reporting on the status and changes on account • Solvency data (BON2) • SEPA direct payments • SEPA credit transfers • International payment services • EFTPOS • E-commerce
SME financing	**Short-term financing** • Corporate Account Overdraft • Loans for Working Capital • Revolving loans • Loans for refinancing • Interfinancing loans • Margin loans • Loan with fixed-term deposits • Loans for preparation of tourist season • Agricultural loans • Loan for the preparation of exports and for the export of goods based on foreign exchange inflows • Discount of bills of exchange of creditworthy companies • Discount of securities, bonds, commercial papers and bills of exchange with government institutions • Loan based on cession on credit rating companies in the country • Loan based on cession from state institutions • Purchase of credit rating companies' claims (factoring) • Purchase of receivables from state institutions (factoring) **Long-term financing** • Loan for working capital and permanent working capital • Loan for investments in fixed assets - investment • Loan for refinancing liabilities • Loan with fixed-term deposits • Loans for preparation of tourist season • Agricultural (Agro) Loan • Loan to exporters for the purchase of fixed assets • Loan for improving energy efficiency and for renewable energy • Loan for all kinds of works on common parts of the building • Loan for the renewal of buildings damaged in earthquakes **Frames for financial monitoring** • Framework for the use of short-term and long-term products (loans, guarantees, letters of credit) • The framework for the purchase of receivables

Product Group	Products and services in 2022
SME financing (continued)	**Special loan programmes – in cooperation with CBRD** • Loan program: Entrepreneurship of young people, women and beginners • Loan program: Private sector investment • Loan program: EU projects • Loan program: Export preparation • Loan program: Working capital • Loan program: Financial restructuring • Framework Loan - Working capital loans • Framework Loan – Investment financing • Export Guarantee Bank Insurance Program • Working capital loan portfolio insurance program for exporters **COVID credit programs - in cooperation with CBRD** • Framework loan for working capital number: COV3-20-1100795 • Export Liquidity Loan Portfolio Insurance Program - Covid-19 Measure-S-OPK-COVID-03/20 • Framework loan for working capital number: COV6-20-1101210 **Ukraine Measures - In cooperation with CBRD** • A single loan insurance program for exporters' liquidity- Measure of Assistance to the Economy of the Republic of Croatia after Russian aggression on Ukraine • Program for Insurance loan Portfolio for exporters' Liquidity - A Measure of Assistance to the Economy of the Republic of Croatia after Russian aggression on Ukraine • Program of Subsidizing Insurance Premiums - A Measure of Assistance to the Economy of the Republic of Croatia after Russian aggression in Ukraine **Special loan programmes – in cooperation with HAMAG-BICRO** • ESIF program (individual guarantees co-financed by EU Structural and Investment Funds) • ESIF (Limited Portfolio Guarantee) Program • HAMAG individual guarantees for rural development • 'PLUS' guarantee program **COVID credit programs - in cooperation with HAMAG-BICRO** • Guarantee Program for the allocation of state aid to the maritime sector, transport, transport infrastructure and related activities in the current COVID-19 pandemic • Guarantee Program for loans for entrepreneurs active in the field of culture and creative industries **Special Credit Programs - in collaboration with the EIB** • Credit to small and medium-sized enterprises (SMEs) and medium-capitalized (Mid-Cap) enterprises **Special loan programmes – other** • Loans in cooperation with the Ministry of Croatian Veterans for micro, small and medium-sized enterprises of Croatian veterans and children of Croatian veterans • Credit lines in collaboration with the Croatian Audiovisual Center

Product Group	Products and services in 2022
Large corporate financing	**Short-term financing** • Corporate Account Overdraft • Loans for Working Capital • Revolving loans • Loan for refinancing liabilities • Interfinancing loan • Margin loans • Loan with fixed-term deposits • Loans for preparation of tourist season • Loans for Financing Stocks of Sugar, Wheat and Other Commodities • Agricultural (Agro) Loan • Loan for the preparation of exports and for the export of goods based on foreign exchange inflows • Discount of bills of exchange of creditworthy companies • Discount of securities, bonds, commercial papers and bills of exchange with government institutions • Loan based on cession on credit rating companies in the country • Loan based on cession from state institutions • Purchase of credit rating companies' claims (factoring) • Purchase of receivables from state institutions (factoring) **Long-term financing** • Loans for permanent working capital • Loan for investments in fixed assets - investment • Loan for refinancing liabilities • Loan with fixed-term deposits • Loans for preparation of tourist season • Agricultural (Agro) Loan • Loan to exporters for the purchase of fixed assets • Loan for improving energy efficiency and for renewable energy • Loan for all kinds of works on common parts of the building • Project financing **Frames for financial monitoring** • Framework for the use of short-term and long-term products (loans, guarantees, letters of credit) • The framework for the purchase of receivables **Special Loan Programs - In cooperation with CBRD** • Loan program: Private sector investment • Loan program: Public sector investment • Loan program: EU projects • Loan program: Export preparation • Loan program: Working capital • Loan program: Financial restructuring • Framework Loan - Working capital loans • Framework Loan - Investment Lending • Export Performance Bank Guarantee Insurance Program **COVID credit programs - in cooperation with CBRD** Framework loan for working capital number: COV3-20-1100795 Exporter liquidity loan portfolio insurance program - Covid-19 measure - S-OPK-COVID-03/20

Product Group	Products and services in 2022
Large corporate financing (continued)	**Ukraine Measures - In cooperation with CBRD** • A single loan insurance program for exporters' liquidity- Measure of Assistance to the Economy of the Republic of Croatia after Russian aggression on Ukraine • Program for Insurance loan Portfolio for exporters' Liquidity - A Measure of Assistance to the Economy of the Republic of Croatia after Russian aggression on Ukraine • Program of Subsidizing Insurance Premiums - A Measure of Assistance to the Economy of the Republic of Croatia after Russian aggression in Ukraine **Special Loan Programs - In cooperation with EIB** • Loan to Mid-Cap Enterprises and Public Sector Entities • Loan to public sector entities • Loan to private sector entities **Special Loan Programs - others** • Credit lines in collaboration with the Croatian Audiovisual Center
Guarantees and letters of credit	• Performance guarantees • Payment guarantees • Counter guarantees and Super guarantees • Stand by letter of credit • Nostro (import) letter of credit • Loro (export) letter of credit • Documentary collections
Cards	• VISA Business debit • VISA Bonus Plus • VISA Prepaid business card • VISA Business with delayed payment
E-banking	• mHPB • mToken • Internet banking • SMS service
Deposits	• Term deposits in HRK/fx • A vista deposits in HRK/fx • MREL deposit
Letter of intent	• Non-binding letter of intent • Binding letter of intent
Other	• HPB Invest products • HPB-Nekretnine services

FINANCIAL MARKETS OPERATIONS

The year 2022 was marked by growing inflation and the struggle of central banks against it, both on the world and domestic markets. In Europe, one of the factors that contributed the most to inflation was the strong rise in energy prices after the start of Russia's attack on Ukraine. Pandemic bond buying programs have been completed by the central banks and reference interest rates have started to be raised, all with the aim of suppressing the highest inflation in the last 30 years of the Eurozone, or 40 years of America. Thus, in 2022, the European Central Bank raised the reference interest rate from 0% to 2.5%, and the FED from the range of 0-0.25% to 4.25-4.50%, and the continuation, albeit at a slightly lower intensity, will follow in 2023.

In moments of record excess liquidity in the domestic banking system, which reached new highest levels of HRK 110 billion after the reduction of the required reserve ratio from 9% to 1%, the main challenge was still the management of liquidity reserves in terms of creating an adequate portfolio of liquid instruments with an appropriate level yield.

Given the historically low yields at the auctions of treasury bills of the Ministry of Finance of the Republic of Croatia, which did not change even with the approach of the transition to the EUR currency at the end of the year, as well as the low yields of money funds, investments are mostly focused on debt instruments with a fixed yield.

Unfortunately, the stock markets had a bad year, so the Bank, through shares in the stock and mixed fund of HPB Invest, recorded a decline in value, which had a negative impact on trading income.

Considering such high liquidity, the bank did not participate in the regular repo auctions held by the CNB during 2022 and successfully maintained the prescribed ratios and liquidity ratios. The liquidity coverage ratio at the end of the year is a high 181%.

In the area of foreign exchange trading and income from exchange rate differences, the Bank achieved a record result in its history in 2022. The contribution to the stated result came from the management of the foreign exchange position and occasional positioning in the EUR/HRK currency pair in somewhat larger amounts, but with acceptable levels of risk.

Also, in the part of the sale of treasury products and the part of foreign exchange trading, the Bank significantly increased its activity in cooperation with corporate clients through the contracting of spot and forward purchases and sales of foreign exchange, achieving the highest volume of transactions in its history. This additionally contributed to the achievement of a historic result in the part of foreign exchange trading.

The Bank is still one of the most important participants in the cash business. In addition to the wide network of branches and exchange offices of the Bank, through cooperation with FINA cash services, the Bank offers a competitive service in trading and supply of cash. Regardless of the excellent tourist season, the volume of transactions in the segment of business with authorized money changers did not approach compared to the pre-pandemic period. This is due to the continuation of the trend of increasing use of credit cards instead of cash, which we expect to continue.

Investment banking

The capital market in 2022 was marked by a significant drop in share prices due to increased inflation and tightening of monetary policies by central banks.

Such a situation was also reflected in the domestic market, especially after the start of the war in Ukraine.

Although the total turnover was higher compared to 2021, there was a 1.5% decrease in the turnover of shares within the offer book, and the Crobex index recorded a decrease of 4.78% last year.

During 2022, the bank also participated as a co-arranger in the issue of bonds of the Ministry of Finance of the Republic of Croatia on the domestic market.

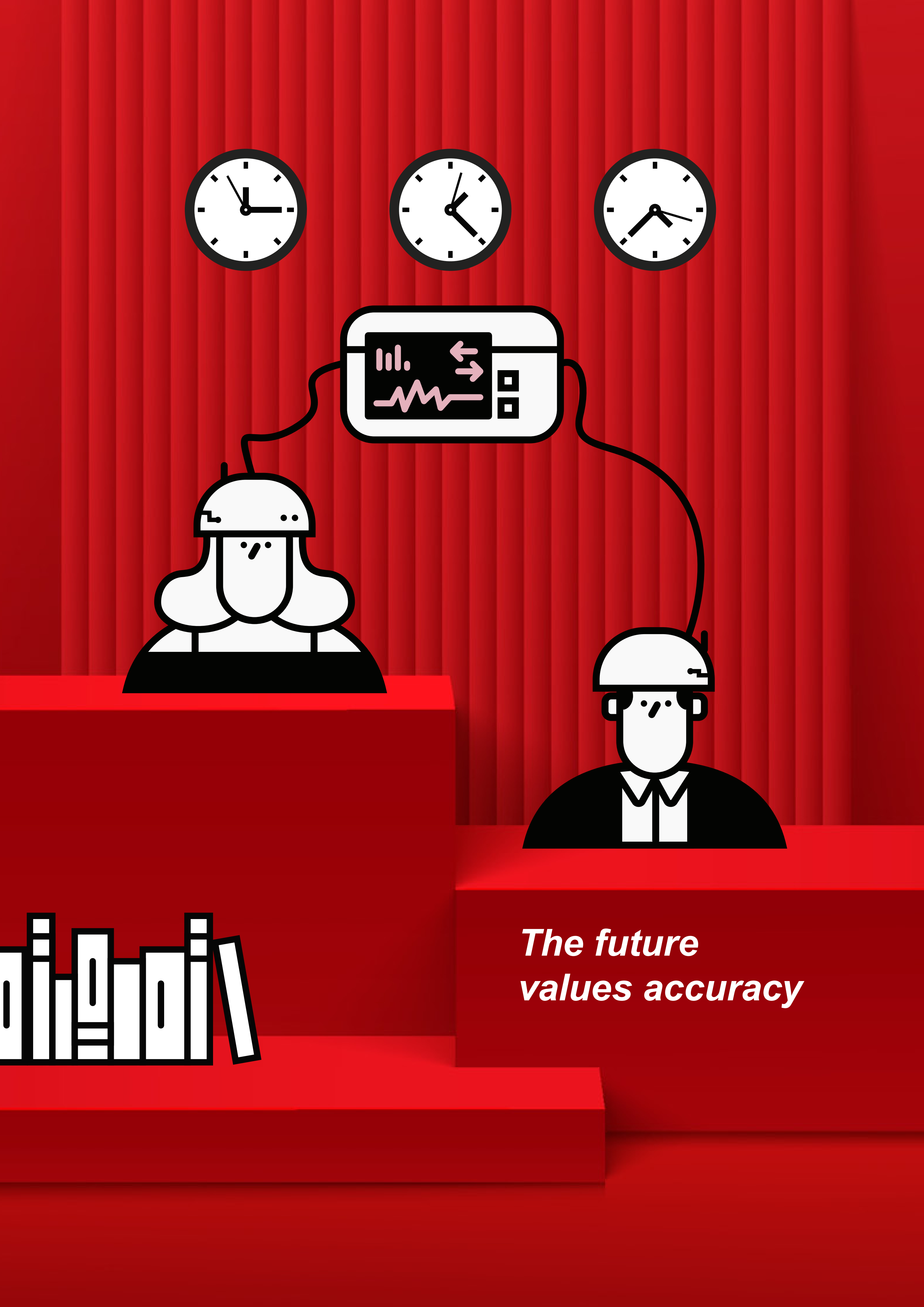
In the area of custody and depository services of pension and investment funds, the Bank is improving and harmonizing services with numerous regulatory requirements and changes, and in this segment as well, it records a continuous growth of assets under custody and depository services. The end of 2022 was also marked by the successful introduction of the euro, and all the Bank's applications and all client balances were successfully migrated, and clients continued to use all services without interuptions at the beginning of 2023.

Financial markets products and services:

Products	Description
Domestic Trading	• Trading (buy and sell) in domestic financial instruments • Clients decide which stocks they will buy or sell and at which prices, as well as what will be the structure of their portfolio • Brokers are obliged to acquaint a client with potential risks, current stock price, specifics of each market, movements of certain stocks and to recommend a portfolio diversification on several shares
Regional Trading	• Trading in financial instruments in Montenegro, Serbia, Macedonia and Bosnia and Herzegovina • Clients decide which stocks they will buy or sell and at which prices, as well as what will be the structure of their portfolio • Brokers are obliged to acquaint a client with potential risks, current stock price, specifics of each market, movements of certain stocks and to recommend a portfolio diversification on several shares
Global Trading	• Trading in leading global financial instruments. • Clients decide which stocks they will buy or sell and at which prices, as well as what will be the structure of their portfolio. • Brokers are obliged to acquaint a client with potential risks, current stock price, specifics of each market, movements of certain stocks and to recommend a portfolio diversification on several shares
Portfolio Management	• The portfolio management service is a specialized service that enables users to entrust their funds to the Bank for management. • The service is intended for people who, in accordance with their own goals and limitations, want to invest in securities and other financial instruments for a period longer than one year in order to achieve additional income. • Every month or even more often, clients receive a report on all activities and changes in the value of financial instruments in their portfolio, i.e. a report on the movement of the value of invested funds
Investment Services	• Investment services include investment advisory services and those related to capital structure consulting, business strategies and related issues, as well as consulting and services related to mergers and acquisitions in companies, and other services in the investment banking segment.
Securities Issuance	• The Bank manages issuances for the following financial instruments: a) debt financial instruments - short-term (commercial papers) and long-term (bonds) b) equity financial instruments - shares • When issuing financial instruments, the Bank offers services that cover the entire issuance process, i.e. include all activities related to the organization, preparation and implementation of registration and payment of securities, as well as other tasks for the issuer in order to achieve successful registration and payment.
Securities Custody	• The basis of custody consists primarily of activities related to the storage of assets and the implementation of settlement of transactions and monitoring of corporate activities. • Beneficiaries of custody services are active participants in the capital market, investment and pension funds and other institutional investors, as well as retail and corporate clients who invest their assets in financial instruments. • Custody services: custody and safekeeping of assets, settlement of transactions of financial instruments on the client’s order, determination of the value of assets, notification of activities of joint stock companies, collection of income from financial instruments and reporting, representation at annual general meetings, notification of changes in legislation.

Products	Description
Depositor of UCITS/ AIF Investment and Pension Fund	• A depositary is a credit institution domiciled in the Republic of Croatia or a branch of a credit institution of another member state, established in the Republic of Croatia, which has the approval of the CNB (or the competent authority of that member state) to store and administer financial instruments on behalf of clients including depositary and related services, entrusted to : - control activities of the fund - monitoring the cash flow of the fund - fund asset storage operations • The depositary keeps accounts for the fund's assets and separates each individual fund from the assets of other funds, the assets of the depository and other clients of the depository and the management company, controls that the fund's assets are invested with regulatory provisions and acts, informs the Regulator on determination of fund asset and unit prices, executes the orders of the management company in connection with transactions with the fund's assets, reports on corporate actions, provides voting services at the company's general meetings, receives payments of revenues and rights due to the fund, ensures that the fund's revenues are used in accordance with regulatory provisions; acts of the company, reports to the Regulator any significant violation of legal elements and elements of the acts of companies.
Moj broker - Web Trader	• Moj broker – Web Trader service enables trading in securities and monitoring the status of the portfolio via the Internet, regardless of the working hours of the Bank's broker • Options: - placing orders for the purchase and / or sale of financial instruments on the ZSE - cancellation or change of order - checking the status of own portfolio - insight into the balance and turnover of brokerage account - overview of stock prices on the ZSE with the 50 best offers in real time - security of data exchange
Short-term HRK loans for Buying Financial Instruments (Margin Loans)	• Short-term HRK loan for the purchase of financial instruments for retail and corporate clients, with the purpose of purchasing financial instruments that are included in the List of financial instruments for margin loans, and in accordance with the daily investment limits for each financial instrument • Loan repayment period up to 12 months • The loan is approved in the amount of up to 100% of the value of pledged financial instruments, minimum HRK 50 thousand, and maximum HRK 2 million.
Spot FX Buy/ Sell	• Product users: Domestic and foreign retail and corporate clients and financial institutions • Product purpose: - Purchase of foreign currencies for payment abroad or deposit on a foreign currency account - Sale of foreign currencies based on inflows from abroad - Foreign currency conversion
Forward FX Buy/ Sell	• Product users: Domestic and foreign retail and corporate clients and financial institutions • Product purpose: - Purchase and sale of foreign currencies at a pre-agreed exchange rate on the currency date higher than two business days from the date of agreement - Purchase of foreign currencies for payment abroad or deposit on a foreign currency account - Sale of foreign currencies based on inflows from abroad - Foreign currency conversion

Products	Description
FX Swap	• Product users: Domestic and foreign corporate clients and financial institutions • Product purpose: - Agreement on the simultaneous purchase and sale of foreign currency at pre-agreed exchange rates. It consists of one spot and one forward transaction of opposite sign. - A SWAP contract is a replacement of two currencies to maturity when they are exchanged again
Cash trading	• Purpose: trading in cash is managed in cash in the position of the Bank, therefore it is to maintain the stock of effective foreign and domestic money at the optimal level
Given deposits	• Product users: Banks • Purpose: short-term financing • Deadlines: Contracts on a given deposit are usually agreed for terms of up to one year, but it is possible to agree on longer terms • Deposit management: Funds are available on the value date until the due date of the contracted deposit
Received deposits	• Product users: Domestic and foreign Banks and financial institutions • Purpose: Realization of yield on free HRK/ foreign currency funds • Deadlines: Money market deposit agreements are negotiated for a fixed term, usually up to one year • Deposit management: It is not possible to use the funds during the term of the deposit; Termination is possible with financial institutions with which there is an agreement on early termination
Repo/ Reverse repo loans	• Product users: Domestic corporate clients and financial institutions • Purpose: - A contract in which one party transfers some form of financial asset (security) to the other in exchange for cash. At the same time, it is agreed that a reverse transaction will be made on a fixed date in the future. - The contract is implemented through two transactions: one purchase and one sale of the security at a pre-agreed price - Represents a loan of a security to one contracting party and cash to another - The repo agreement is structured so that all benefits as well as the associated risks of holding the security remain with the original owner - A reverse repo agreement represents two opposite transactions from those in a repo agreement • Deadlines: Repo agreements are agreed mainly as money market deposits for up to one year, but it is possible to agree on longer terms.
Securities trading (bonds, treasury bills, CNB bills, commercial bills, shares)	• Product users: Domestic corporate clients and financial institutions • Purpose: Investment of free cash by purchasing debt securities with fixed yields issued by the state, local governments, cities or companies • Deadlines: - Short-term debt securities are issued for periods of up to one year - Long-term debt securities are issued for maturities longer than one year


The future
values accuracy

Internal control system and control functions

Risk management

HPB manages risks through a risk management system consisting of a set of procedures and methods established to identify, measure, monitor, manage and manage the risks to which HPB is or may be exposed. The purpose of setting up a risk control system is to manage the risks and minimize their unintended consequences, thereby ensuring the stability of HPB's business (including the fulfillment of all commitments). The risk management system is regularly updated, including its qualitative and quantitative components, and has been established in accordance with the following principles in risk assumption and management:

- Defining acceptable levels of risk exposure based on internal individual risk exposure limits and regulatory requirements,
- Continued improvement of procedure for determining, measuring, evaluating and monitoring risks to which the Bank is exposed,
- Continued development of measuring and monitoring risk procedures and methods in line with development of control risk function and development of certain IT support.

By the nature of its business, HPB assumes various risks when it comes to contracting business with customers. When taking over (and managing risk), HPB has the following goals:

- Ensuring stable and secure growth through an effective risk management system,
- Improvement of risk profile,
- Ensure the implementation of a comprehensive management system based on the application of harmonized procedures and procedures at the Bank level.

Considering the size and complexity of its activities HPB defined substantial risks which are monitored through the risk management system

- Credit Risk,
- Market Risk,
- Liquidity Risk,
- Interest Risk in the Bank's book
- Operating Risk

Credit Risk

Credit risk is the risk of loss due to a borrower's default on a credit institution. This risk is assumed by HPB as part of its regular business activities and is also the most significant risk for HPB (and for all credit institutions).

Accordingly, the greatest attention was given to credit risk management through the prescribed policies, procedures and other internal acts of the Bank.

The objective of credit risk management is to ensure a quality credit portfolio, earnings and growth in placements while maximizing the rate of return with an acceptable level of risk-earnings ratio and their relationship to the price of the source of funds.

Credit risk management is organized through:

- The Management Board,
- Authorized committees (Credit Committee) and persons,
- Operating and organizational separation between front and back office activities,
- Credit risk management Department,
- Strategic risk management and risk control Department

The tendency to assume credit risk is determined by the established limits on credit risk exposure.

For the purposes of credit risk control and management, different risk parameters are monitored (e.g. debtors' creditworthiness, regularity in settlement of HPB liabilities, quality of collateral, regulatory and internal capital adequacy, portfolio quality) and different estimates are made (e.g. credit risk assessment placements prior to approval, estimation of recoverability of placements).

Credit risk is also related to concentration risk and currency induced credit risk which HPB manages in the same way as it manages credit risk.

Market Risk

Market risks include position risk, FX and commodity risk.

- Position risk assumes loss due to price change of financial instruments or financial derivatives
- FX risk assumes loss due to change in exchange rate and/or price of gold
- Commodity risk assumes loss due to price change of commodities.

Market risk management is organized through:

- The Management Board,
- Operating and organizational separation of front and back office trading activities,
- Assets and Liabilities Office,
- Strategic risk management and risk control Department.

The tendency to assume market risks is determined by the established market risk exposure limits. In order to manage market risks, appropriate limits have been established at the portfolio, sub-portfolio and instrument levels with respect to (depending on the nature of the financial instrument) certain market risk exposure measures. Also, stop-loss limits for individual equity securities classified as trading assets have been established.

In measuring and valuing market risk exposure the Bank uses a methodology based on value at risk (VaR) method, measures of interest sensitivity (BPV) and limit measure in relation to the nominal amount of the instrument.

Liquidity risk

Liquidity risk is the risk of loss arising from the credit institution's existing or expected inability to meet its financial obligations as they fall due. Liquidity risk is closely related to the following two risks and the Bank considers them as a whole in terms of risk management:

- Funding liquidity risk is the risk that a credit institution will not be able to successfully meet expected and unexpected current and future cash needs and collateral needs without affecting its regular day-to-day operations or its own operations. financial result.
- Market liquidity risk is the risk arising from the inability of a credit institution to simply offset or eliminate those positions at market price, due to market disturbance or insufficient market depth.

Liquidity risk management in HPB is organized through:

- The Management Board,
- Assets and Liabilities office,
- Assets and Liabilities management committee (Liquidity Subcommittee),
- Strategic risk management and risk control department,
- Financial markets department.

The methodology for measuring or estimating liquidity risk exposure is based on the calculation of the liquidity coverage ratio (LCR), the calculation of structural liquidity exposure indicators including monitoring and reporting on net stable sources of financing (NSFR) and additional monitoring parameters for liquidity reporting (ALMM).

The propensity to assume liquidity risk is determined by the established limits of liquidity risk exposure. In order to manage liquidity risk, appropriate limits have been established in relation to the liquidity ratio and limits for structural liquidity indicators. Also, the limits set by the Decision on reserve requirements and the Decision on the minimum required foreign currency claims of the CNB have been established.

Interest rate risk in the banking book

Interest rate risk in the banking book is the risk of loss arising from possible changes in interest rates that affect the items in the book of non-trading positions.

Managing interest risk in the Bank's book is organized through
- The Management Board,
- The Assets and Liabilities Committee,
- Strategic risk management and risk control department,
- Assets and Liabilities office.

The tendency to assume interest rate risk in a bank ledger is determined by the established limits on interest rate risk exposure in the bank ledger.

In order to manage the interest rate risk in the bank's book, appropriate limits have been established in relation to the ratio of the change in the economic value of the bank's book and regulatory capital and in relation to the change (decrease) in net interest income. In addition to the above, the Bank also monitors the value at risk (VaR) of positions sensitive to interest rate changes.

Operating risk

Operating risk is risk of loss stemming from inadequate or unsuccessful internal processes, people or systems or external events, including legal risks.

Operating risk management is organized through:
- The Management Board,
- Structure of Operating risk management (Operating risk manager, Support persons for Operating risk management, Connection persons),
- Operating Risk Management Committee,
- Corporate Security office,
- Compliance office,
- Strategic risk management and risk control department.

Methodology of measuring, i.e. estimating Operating risk exposure is based on collecting and analyzing data on events due to Operating risk, self-assessment of risk and controls, estimated IT risk, results of analysis of business effects taking into count implemented going concern plan and estimation of externalized risks. Also, the Bank estimates effect of introducing new products to its risk profile.

The Bank primarily uses measures for mitigating Operating risk through internal control system and risk transfer measures (hedge) in cases where applicable. Also, there is going concern management system.

Other risks

Other risks, although present in HPB's business, are less significant than previously described and the methodology and method of managing them are less complex than for the significant risks (described above).

Concentration Risk is the risk arising from each individual, direct or indirect, exposure to a single person, group of related persons or central counterparty or group of exposures connected by common risk factors, such as the same economic sector or geographic area, equivalent business or products, i.e. using techniques to for lowering credit risk, including risks related to indirect credit exposure to same collateral provider which can lead to losses that could jeopardize credit institution's going concern or make material change to its risk profile.

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

Government Risk assumes government bodies or the central bank will not be able to meet its obligations toward other countries or foreign lenders and that other debtor of the country will not be able to meet their obligation to foreign lenders.

Strategic Risk assumes loss due to wrong business decisions, inflexibility to economic changes etc.

Management Risk assumes loss due to credit institution having limited capacity in forming sophisticated management system, mechanism and controls.

Credit Value Adjustment Risk (CVA) assumes portfolio value adjustment at mid-market value (this risk is related to all OTC derivatives for all business activities except credit derivatives recognized for reduction of credit risk weighted exposure). Credit value adjustment reflects current market value of counterparty credit risk for the institution but does not reflect current market value credit risk for the counterparty. The Bank regularly reports on credit value adjustment risk, which is not significant considering the scope of the Bank's operations.

Compliance Risk assumes potential measures and penalties and the risk of significant financial loss or reputation loss which the credit institution may suffer due to non-compliance with regulations, standards and codes and internal laws.

Business Risk assumes negative, unexpected change in the volume of business and / or profit margins that can lead to significant losses and thus decrease the credit institution's market value. First of all, business risk can be caused by a significant deterioration of the market environment and changes in competition or consumer behavior.

L**egal Risk** assumes legal procedures against the Bank due to unfulfilled contractual obligations, legal proceedings against a credit institution and business decision which are not applicable or have a negative effect on the Bank's business and financial position.

Regulatory Risk assumes regulation change which can affect the Bank's business and profitability.

Internal Audit

The management and all employees are responsible for the implementation and application of the elements of internal control systems. The elements of internal control systems are described in the internal regulations and implementing documents of business areas with particular emphasis on preventive control activities and early detection of weaknesses and disadvantages.

Internal Audit provides an independent assessment of the adequacy and effectiveness of internal controls of each audited area.

Internal controls are a set of processes and procedures established for adequate risk control, monitoring of business efficiency, reliability of financial and other information and compliance with internal and external regulations. They represent a reasonable guarantee that the business objectives will be achieved in the prescribed manner, within the set deadlines with the application of applicable regulations. Internal controls are an integral part of the management processes of the management and all employees of the Bank. The basic principles of the internal control system are reflected through:

- clear lines of responsibility,
- delimitation of powers and responsibilities,
- specific control procedures and
- nternal audit function.

Internal audit

Internal audit is organized as an independent and autonomous organizational part whose work is based on the professional principles of internal auditing and related legislation. The management and responsibility of the internal audit function is determined by the principle of dual responsibility, whereby it is administratively accountable to the Management Board, and functionally to the Supervisory Board, i.e. the Audit Committee.

The Internal Audit office is organized by areas and specialized teams and skills are encouraged for each area. Therefore, there are teams for: Information system, Financial markets, Risk management, Retail and general audit.

Charter of Internal Audit determines independence and organizational autonomy of internal audit function.

Access to data, information, persons and spaces is direct and unrestricted. In accordance with the general standards of internal audit and legal regulations, the internal audit procedures are carried out through four phases: planning, conducting tests, reporting and monitoring the results.

Planning is based on a documented risk assessment, and the Annual Working Plan is adopted by the Management Board with the prior consent of the Audit Committee and the Supervisory Board.

Internal audit covers all business areas of the Bank and is structurally divided into audits of retail banking, risk management, general audit, information system audit and audit of financial markets.

Reporting on the results of the audited areas is submitted to the responsible person of the audited entity, the competent member of the Management Board of the audited area, the Management Board and the Audit Committee. Each individual report is submitted to the Management Board meeting, thus ensuring that the Management Board has taken note of the audit results, proposed recommendations and measures and deadlines for fulfilling the recommendations and measures. Individual internal audit reports are submitted to the Audit Committee at board meetings. The same is done through the Office of the Administration as part of the regular submission of documentation.

Internal Audit prepares the Report on the work on a semi-annual and quarterly basis and submits it to the Management Board, the Audit and Supervisory Boards, while the quarterly work reports are submitted to the Management Board and the Audit Committee.

The work report contains information on the implementation of the annual work plan, a list of planned and extraordinary tasks performed, a list of planned tasks not performed with reasons for non-implementation of the plan, a summary of the most significant facts identified during audits, the effectiveness of the risk management system and a report on the implementation of proposals, recommendations and measures resulting from the performed audits with the reasons for their non-implementation.

Compliance monitoring function

The compliance monitoring function is organized within the Compliance Department in Compliance and data protection Division, compliance office.

The Executive Director of the Compliance Department, as the holder of the Compliance Monitoring Function, is the person responsible for the work of the control function of monitoring compliance, and in addition to the duties and responsibilities prescribed by the Bank's internal acts, in particular

- is responsible for coordinating compliance risk management;
- is obliged to identify and assess the risk of compliance once a year;
- is responsible for the annual work plan, operational plans and work methodology, and the budget of the Compliance Department;
- is obliged to submit a report on the work of the Management Board, the Risk Committee and the Supervisory Board of the Bank at least semi-annually;
- is obliged to issue a general assessment of the Bank's compliance with the regulations governing the provision of investment services and the performance of investment activities once a year;
- is obliged to submit at least an annual report on the work related to the provision of investment services and the performance of investment activities to the Management Board, the Risk Committee and the Supervisory Board.

The Executive Director of the Compliance Department, the Director of the Compliance and Data Protection Division and the employees of the Compliance Department, who perform compliance monitoring activities (hereinafter: the Compliance Monitoring Function) act independently of business areas, processes and activities where compliance risk arises and do not perform tasks in which they could come into conflict of interest. Furthermore, they are authorized to request and obtain access to all information, data and documentation necessary for the performance of tasks within their competence, and other organizational units of the Bank are obliged to cooperate in providing the requested information.

Remuneration of Compliance Department Director and employees are not directly related to specific jobs and transactions in business areas, processes and activities in which compliance risks arise, and the Bank's internal acts prescribe restrictions related to receiving gifts and other benefits, supplementary work, memberships in supervisory boards and corresponding bodies of other legal entities and other circumstances that may lead to a conflict of interest.

The Compliance Department Director and employees are authorized to request and obtain access to all information, data and documentation, information systems and other resources necessary for the performance of tasks under their jurisdiction, and other organizational units of the Bank are obliged to cooperate in providing the requested information.

The tasks, scope and manner of work, i.e. work methodology and reporting system of the Compliance Monitoring Function to the Management Board and the Supervisory Board of the Bank are regulated by following internal acts:

1. Business Compliance Policy;
2. Rulebook on business coordination;
3. Business Compliance Methodology.

Compliance monitoring functions include at least:

1. determining and assessing the compliance risk to which the Bank is or may be exposed,
2. advising the management and other responsible persons on the manner of application of relevant laws, standards and rules, including information on current events in these areas,
3. assessment of the effects that changes in the relevant regulations will have on the credit institution's operations,
4. verification of compliance of new products or new procedures with relevant laws and regulations as well as with amendments to regulations, in cooperation with the risk control function,
5. supervision of the handling of inside information in terms of capital market regulations and keeps prescribed records and registers,
6. monitoring and control of recording telephone conversations and electronic communication related to the provision of investment services and the performance of investment activities,

7. management of the system of resolving clients' complaints regarding the provision of investment services and the performance of investment activities,
8. compliance monitoring activities related to investment product management,
9. monitoring and control of qualifications and personnel conditions of employees who provide investment services and perform investment activities
10. provide a general assessment of the Bank's compliance with the regulations governing the provision of investment services and the performance of investment activities,
11. reporting to the Management Board, the Supervisory Board and the Risk Committee on compliance risk and other control functions if the assessment determines the Bank's exposure to high compliance risk,
12. cooperation and exchange of information with the Strategic Risk and Risk Control Sector related to compliance risk and risk management,
13. consulting activities in the part of preparation of educational programs related to compliance,
14. supervision and verification of compliance of operations with relevant regulations and reporting on performed supervision,
15. monitoring and controlling the compliance of the Bank's employees with legal and other regulations as well as with high ethical and professional standards established in the Bank's Code of Ethics and reporting to the Management Board on the performed controls,
16. supervision of the Bank's operational compliance with the provisions of Articles 80 and 81 of the Capital Market and the Rulebook on organizational requirements and rules of business conduct for the performance of investment services and activities.

The compliance function continuously cooperates with managers and employees of the Bank's organizational units, especially in the part related to consulting on the application of relevant regulations to individual obligations and responsibilities in the business domain, and participates in compliance and implementation activities with regulatory requirements, recognized compliance risk and managed it adequately. In doing so, it is necessary to ensure that the cooperation of the compliance monitoring function with other organizational units does not in any way jeopardize its objectivity and independence.

The compliance function continuously cooperates with the other two control functions, the Internal Audit Office and the Sector of Strategic Risks and Risk Control, especially in the part related to monitoring the implementation of the recommendations of supervisory and regulatory bodies. The cooperation is goal oriented to all three control functions jointly establishing an effective system of internal controls in all areas of business, while avoiding overlapping and conflicting responsibilities.

The compliance function also cooperates with external auditors and competent supervisory authorities (CNB, HANFA) in the implementation or monitoring of the implementation of recommendations issued by these supervisory authorities to the Bank.

At the beginning of the business year, and no later than 31 January each year, the Executive Director of the Compliance department submits to the Management Board, Risk Committee and Supervisory Board the annual work plan of the compliance monitoring function, which is adopted by the Bank's Management Board.

Furthermore, the Executive Director of the Compliance department annually, as part of the annual work report, identifies and assesses compliance risk in accordance with the categories of compliance priorities set out in the Compliance policy and assesses the Bank's compliance with relevant regulations.

The annual report shall be submitted to the CNB by 31 March of the current year for the previous year.

The Executive Director of the Compliance department, also once a year, as part of the annual report on the provision of investment services and investment activities, provides a general assessment of the Bank's compliance with obligations under the Capital Market Act, Regulation (EU) no. 596/2014, Regulation (EU) no. 600/2014 and regulations issued by CFSSA based on them.

Annual Report The compliance monitoring functions related to the provision of investment services and the performance of investment activities shall be submitted to the Croatian Financial Services Supervisory Agency by 31 March of the current year for the previous year.

Once a year, when considering the annual report on the work of the Compliance Function, the Bank's Management reviews the adequacy of the procedures and the effectiveness of the Compliance Function, draws conclusions on the work of the Compliance Function and informs the Risk Committee and the Bank's Supervisory Board about them, and takes appropriate measures to correct any identified deficiencies.

Oversight of work Compliance functions are performed by the Internal Audit Office as part of permanent and comprehensive supervision of the Bank's operations.

Development plan of Hrvatska poštanska banka, p.l.c.

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

The direct consequences of the COVID-19 crisis and its post-crisis consequential events, which have not yet fully materialized, have the greatest short-term impact on the realization of the Bank's development plan. However, even before the aforementioned crisis, the banking sector in the world and also in the Republic of Croatia is under the significant influence of technological changes (FINTECH & AI) which have already or will in the future be able to completely or partially bypass classic financial intermediaries in the provision of services or change its nature, without its holders being exposed to extensive regulatory requirements.

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

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

Mission

We create conditions for a better life in Croatia.

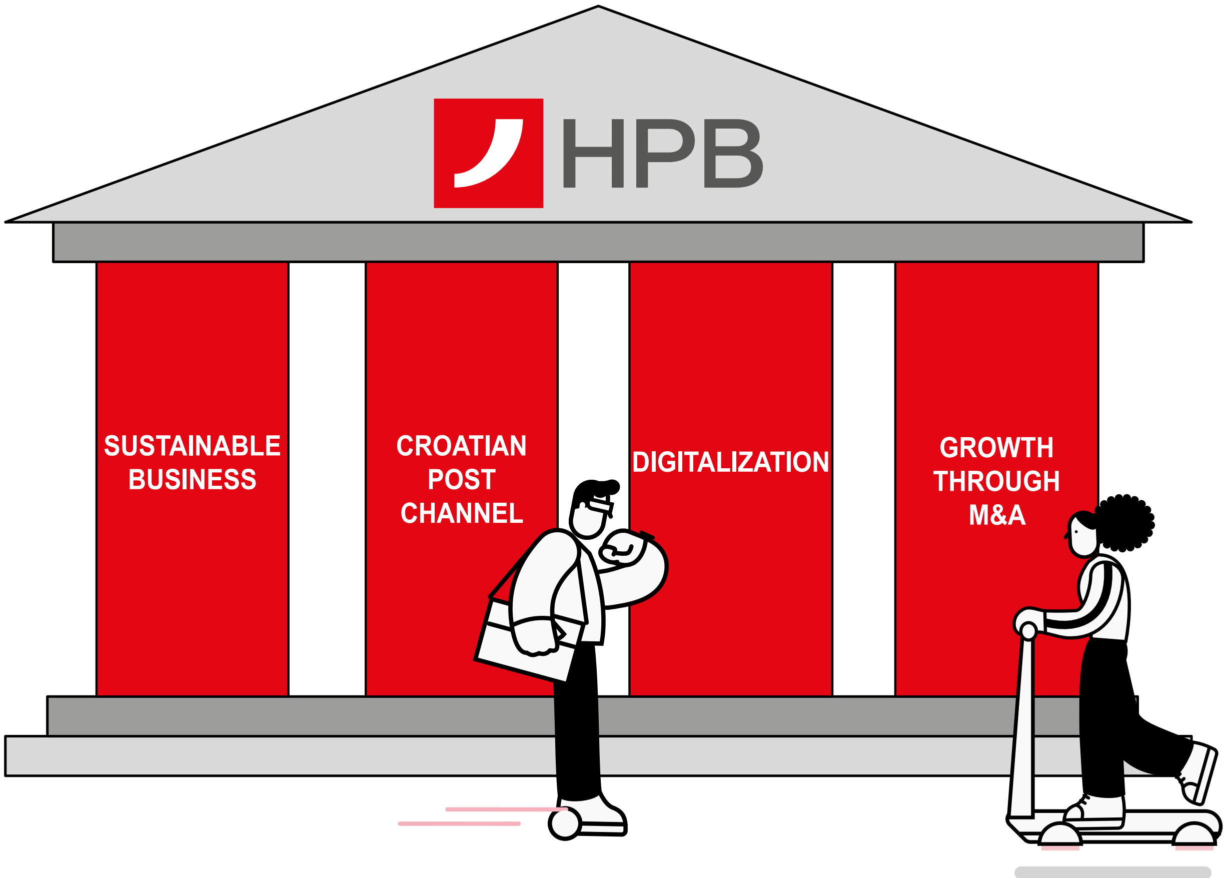
Vision

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

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

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

Pillars of development



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

Large corporate and public sector operations

The strategic focus of the Large Corporate and Public Sector department ("Sector") continues to be the intensive expansion of business cooperation with existing clients and the acquisition of new ones, based on best banking practice. In doing so, special attention will be paid to the balance between the commercial opportunities provided by the markets and the Bank's need to follow its conservative approach when it comes to risk management.

The further development of the Sector's business is based on increasing the base of active large clients in private domestic and foreign ownership through the provision of credit lines for investments and working capital, documentary business in the country and abroad and a wide range of payment services. A significant impact will also have the expected merger of the Nova hrvatska banka, which will increase the number of clients, portfolio in the integrated bank, as well as the inflow of specialist knowledge and good banking practices.

The sector invests great efforts in the development of sophisticated financial monitoring services for "green-field" investments in the segment of energy, water and communal services, housing and tourism, guided by the principle of supporting the highest quality projects that are adequately capitalized and can be assessed with a high degree of reliability. adequacy of future cash flows from project operations.

In addition, special care is taken to approach clients in accordance with their affiliation with industries, which leads to additional specialization aimed at increasing the quality of the overall business relationship with clients. In doing so, the maximum of branch exposures to credit risk should be considered, all in accordance with the macroeconomic indicators of the respective branches of activity.

The target acquisition groups of clients are all creditworthy clients who have an open account and a stable business relationship with other banks - large systems, state and local government bodies. The aforementioned Bank's approach to customer segmentation will provide the opportunity to offer the highest quality solutions to new customers while maintaining a much-needed level of security in the area of risk management, which proved to be the right direction of movement even in earlier periods.

The aim of this approach is to apply such a specialist model of sales and business relationship management that will respond to the needs and expectations of customers in the best possible way.

Using various acquisition tools - customer bases, pre-selection, sales promotions, etc. - will allow access to new customers and expand relationships with existing ones. In this sense, the Bank's plan is to fully harmonize the quality of the credit process, the level of authorization in approval of individual products and customer segments, and the offer of product solutions with a high level of flexibility. Automation and digitalization are trends that the Bank has already adopted in order to keep pace with global trends and create a modern sales infrastructure. Development processes are underway and the introduction of a number of automated services based on mobile technologies is expected in the coming period. In this way, the Bank ensures faster and simpler business operations for entrepreneurs with quality long-term business relationship management.

One of the Sector's main focus will continue to be on expanding business cooperation and lending to those clients and industries that largely contribute to increasing the GDP of the Croatian economy - manufacturing, exporters, manufacturing and energy production. In doing so, as an imperative of quality risk management, an individual approach is imposed on each client in assessing its overall financial quality, the potential of the industry in which it operates and the potential of the specific business transaction in which it enters.

From the very beginning of the crisis, caused by the COVID-19 pandemic, and additionally due to the impact of the war in Ukraine, the Bank continuously introduces assistance measures to facilitate the financial business and allow entrepreneurs to grow as quickly as possible.

In order to achieve the best possible position on the market, provide the best service to customers and optimize revenue, the Sector will strengthen cooperation with Croatian Post p.l.c. as a strategic partner, especially in the part of increasing the number of clients from the sphere of Local Government and Self-Government Units and affiliated companies. Significant distribution potential of Croatian Post it provides the Bank with a great opportunity to increase the number of clients, which is already evident from the pilot project that has been running since August 2020 and increase the sales volume of its products and services, in 2022, primarily in the area of payment transactions and card products, which trend we expect in the coming period, which will affect the increase in non-interest income.

The Bank will continue to develop its business relationship with FINA as one of the most dominant partners in terms of total payment transactions and revenue generated by this business line. Activities related to the improvement of business in the part of cash management will continue in cooperation with large corporate who have the need to deposit at their locations.

In the deposit business, the emphasis will be on expanding transaction business with large companies and corporations, but also on continuing good cooperation with state and public companies, local self-government units and companies owned by them. In doing so, emphasis will continue to be placed on the optimal ratio of interest expense and the Bank's need for liquidity to be placed on clients' markets. In this context, the emphasis on the optimal relationship of the interest cost and the need of the bank for liquidity, which they will place to clients on the market. The Bank is recognized as a reliable partner by corporate clients who show their trust through continuous inflow of new term and a-vista deposits.

The ambition of the Sector and the Bank in the area of business with the economy is to be a reliable partner to clients who will positively influence their business with their expertise while achieving continuous growth of their profitability and a high degree of protection and security of their portfolios. These will be the main guidelines in business in the forthcoming period, which ensures the establishment of Hrvatska poštanska banka as one of the leading credit institutions on the market.

Small and Medium Enterprises operations

SME department is focused on efficiency and productivity, deepening the strategic partnership with the Croatian Post, digitalization, employee training and synergy with all organizational parts of the Bank, all in order to increase the quality of service and support entrepreneurs who can contribute to faster business development and employment growth.

By increasing loans and targeting those segments and entrepreneurs who create value for the economy, the SME Sector will contribute to the development of Croatia and its entrepreneurs. At the same time, area for improvement was identified in the area of EU funds for strengthening entrepreneurship, financing of export companies, which, due to their flexibility and dynamism, are recognized as one of the key sources of innovation in the economy. In the coming period, we expect an additional strengthening of the lending activities of entrepreneurs, which we are ready to support with specialized lending programs through cooperation with HBOR, HAMAG BICRO and other partners who will also be directed towards supporting entrepreneurs in their business ventures.

Focusing to achieve the best possible position on the market, provide the best service to customers and optimize revenues, the SME Business Sector will use the opportunity to further develop cooperation with Croatian Post as a strategic partner primarily in the area of payment operations and product contracting using the distribution channel of Croatian Post.

The SME sector will constantly work on improving the quality of service and will make a maximum contribution so that existing processes such as the approval of credit products and the establishment and monitoring of business relationships will be fully automated, which would mean a faster reaction and feedback to clients about contracting products and service.

With the new business model for small and medium-sized enterprises, we want to achieve business and operational excellence in order to provide the fastest, most efficient and competitive service and contribute to the development of Hrvatska poštanska banka into a leading bank for micro, small and medium enterprises.

Retail operations

Retail banking is a strategic segment of the Bank's business. In the coming period, we will continue development activities to improve existing and introduce new products and raise the quality of services in order to increase the number of working clients. We continue with acquisitions and cooperation with selected employers and strategic partners. We are aware that only by constant improvement of the level of service can we achieve planned acquisitions and growth, so we carry out continuous education of employees and measure the quality of service.

During 2022, the emphasis was on the activities related to the European currency in the Croatian monetary system, and the focus of developmental activities in the past year was on securing all functional assumptions in order to successfully conduct a conversion and services in the domain of credit and transaction business on the Euro currency, which the bank has successfully implemented.

During 2023, the primary focus will be on the merger with the Nova hrvatska banka p.l.c. where further focus on improvement and digitalization of the process of contracting product, as well as improvements to the functionality of certain products with the aim of allowing even better services.

Financial market operations

With the entry into the European Monetary Union and the successful transition to the euro banking system, the Republic of Croatia experienced significant changes.

The monetary policy framework of the ECB becomes applicable to banks in the Republic of Croatia, and they will have access to monetary policy operations on the single euro market.

Accordingly, activities on liquidity management and portfolio management in order to ensure support for stable operations of the Bank will be facilitated.

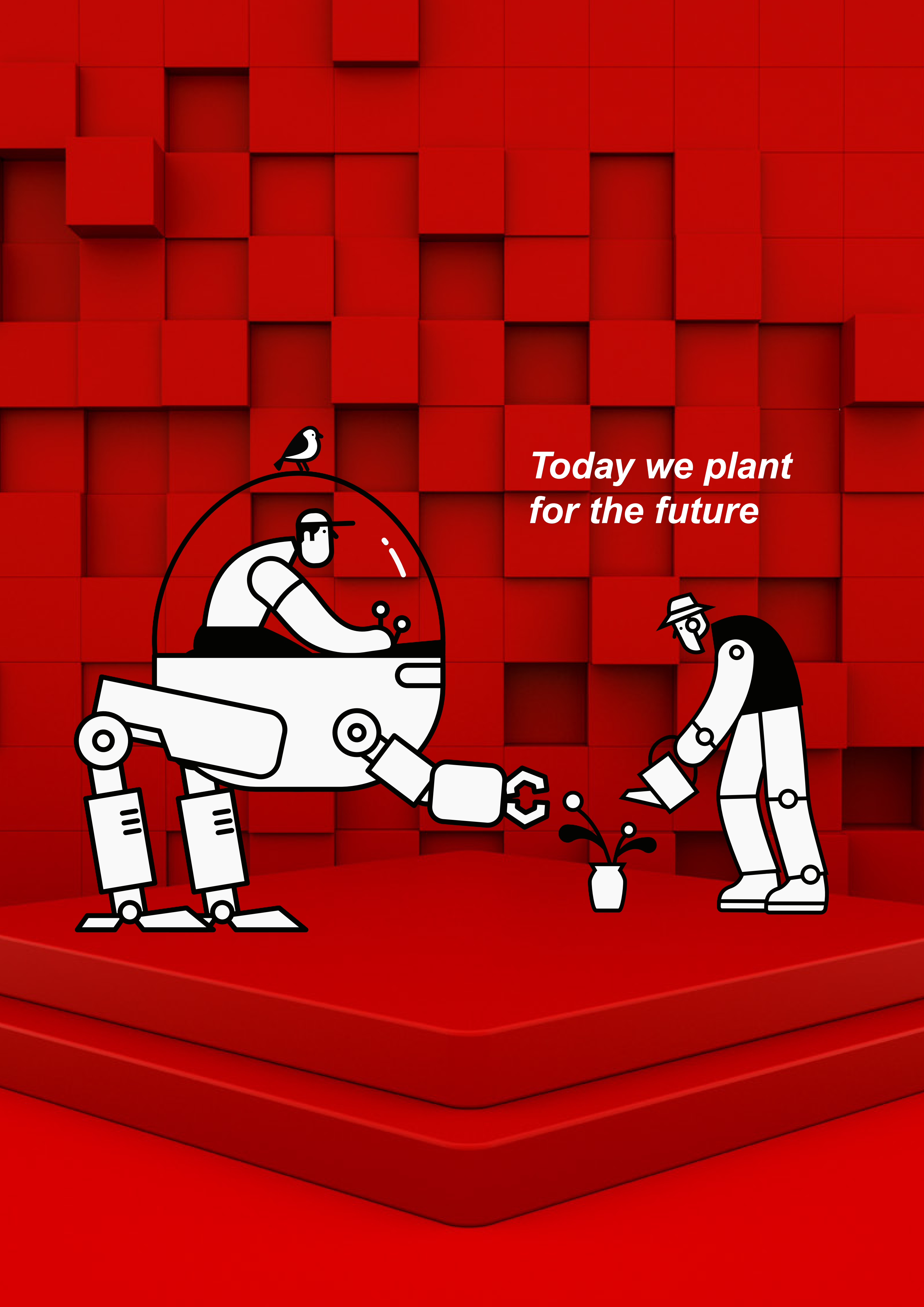
The high liquidity of the system, which reached record levels with the reduction of the reserve requirement ratio in December 2022, will continue in 2023 with the fact that it will be partially neutralized through the permanent possibility of making overnight deposits with the ECB. In the conditions of still rising interest rates, unlike in previous years, this should have a positive effect on the Bank's income, but at the same time we expect a somewhat milder growth of passive interest rates and a tightening of financing conditions on the interbank market.

With the entry of the Republic of Croatia into the Eurozone, banks in the Republic of Croatia will lose significant income from exchange operations and foreign exchange trading, and we expect slightly more intense turnover during the tourist season.

The end of the ECB's bond-buying program and the reduction of the balance sheet, combined with the continuation of the central banks' benchmark interest rate hikes, should keep yields on debt instruments at higher levels.

The planned yield growth should be more pronounced in the first half of the year, while the growth in the rest of the year should be limited due to the expected slowdown in inflation and improved macroeconomic indicators for the Republic of Croatia, which should have a positive effect on the reduction of spreads on bonds.

In the investment banking segment, activities will be focused on expanding the client network and developing new products from the domain of investment services and custody.


Today we plant
for the future

Non-financial report for 2022

HPB to publish the first stand-alone Sustainability Report

Accepting our responsibility for and our role in creating conditions for a better life in Croatia, in line with our mission and in compliance with the legal provisions and regulatory guidelines of non-financial reporting, Hrvatska poštanska banka reports on its activities in the segment of socially responsible and sustainable business as part of the Annual Financial Statements.

HPB has been reporting on its environmental and social activities and impacts since 2017 within the Annual Financial Statements, and since 2007 as a member of the UN Global Compact Initiative through annual Progress Reports.

In compliance with international and national regulatory guidelines and in line with the European Union's plan to establish a corporate sustainability reporting system by 2026, consisting of publicly disclosed verified, comparable and consistent data, which will enable the EU to reorient capital flows towards a more environmentally and socially sustainable economy, HPB has opted for a holistic approach to non-financial reporting, and will publish its first stand-alone Sustainability Report for 2022, with consolidated data for HPB Group.

The 2022 Sustainability Report will be aligned with the international best-practice non-financial reporting framework (Global Reporting Initiative), adopted by HPB as a non-financial reporting standard in order to provide consistency and comparable monitoring of relevant environmental, social and governance performance indicators.

The Bank will publish the 2022 Sustainability Report on its official website in April 2023, and within the Annual Financial Statements we provide an overview of the highlights, activities and contributions aligned with the Global Sustainable Development Goals.

Business operations aligned with Sustainable Development Goals

We shape and assess the impact of our business operations aligned with the UN Global Impact 17 Sustainable Development Goals (SDG). Although we pursue all 17 global goals, considering our business operations, we have identified the following segments of greatest impact:

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

The report below highlights the activities we carried out in 2022, aligned with the global Sustainable Development Goals.

3 GOOD HEALTH AND WELL-BEING

Ensure healthy lives and promote well-being for all at all ages, primarily our employees, is one of the sustainable development goals that HPB Group has identified as far-reaching, particularly within the current context that we live and operate in. Employee health and safety was a priority throughout 2022. HPB Group provides all employees with **voluntary and supplementary health insurance**, which include an annual medical examination. All employees are entitled to a day of leave, in order to encourage them to take the annual medical examination.

Within the project **Health Friendly Firm**, and in collaboration with the Croatian Institute of Public Health, the Bank has organized Polygon of Health, a health centre tasked with the promotion of a healthy lifestyle. The company-wide implementation of the module Health Friendly Firm included evaluation criteria such as health promotion, occupational health and safety and the promotion of health across HPB Group. Successfully meeting all the criteria enabled HPB to become the first bank to obtain the Health Friendly Firm Certificate.

HPB Sport is another initiative rolled out with the purpose of promoting a healthy lifestyle and encouraging employees to engage in physical activity. In the course of 2022, we launched a series of activities aimed at developing a culture of sports within HPB Group, nurturing corporate values of unity, teamwork and humanitarian work. HPB Sport provides employees with subsidized individual recreation, with the aim to bolster and promote the importance of physical activity.

Acknowledging the fact that mental health is just as important as physical health, **psychological counselling** is available to employees throughout the year. The purpose of such counselling is to empower employees to successfully cope with challenges by developing new mindsets and tools that support them through change, and thereby increase the quality of life.

In order to ensure uninterrupted and successful business operations, HPB Group continuously works to enhance the level of security in its operations. In addition to regular systematic activities, employees are required to take compulsory **information security** training. All employees are duly and promptly informed of all current and potential active phishing campaigns, in order to prevent such attacks.

Evacuation and rescue drills are regularly conducted at HPB Group facilities and premises, and efforts are taken to improve workplace quality thorough the application of ergonomics and occupational health and safety measures. HPB continued to raise the level of fire protection in 2022 by implementing a fire alarm system, continuously eliminating potential risks that can cause **injuries at work**, improving microclimate conditions and lighting in the workplace, workplace temperature and ventilation.

Employee work - life balance is recognized as one of the key sustainable development goals because it impacts employee satisfaction and engagement and contributes to a healthy and satisfying work environment. To secure a better work-life balance we promote **flexible working hours**, in cases where work processes allow such organization of work (reduced working hours on Friday, flexible working hours).

For employees whose children start kindergarten and school, we provide a day of paid leave on the first day of school, creating an opportunity for all parents to take part in that special moment. In 2022 we reinforced our employee care with a decision to **co-fund kindergarten fees**.

We provide additional benefits to our employees such as **discounts for sports activities** through Multisport scheme, special schemes for the purchase of office furniture for remote work, discounts in a wide range of stores, airline ticket discounts, employee discounts for certain banking products, occasional cash allowances such as payment for the birth of a child/adoption, or jubilee awards.

HPB Group employees are entitled to one day of paid leave for each **blood donation** they make. All employees are granted this right, irrespective of the scope and the basis of exercising the right to paid leave. Additionally, employees are granted one day of paid leave monthly for volunteering.

The Bank consistently conducts an **organization vitality survey** to learn about employee opinions, attitudes and satisfaction. Organization vitality survey is the first step in focused management of organizational climate, corporate culture and employee engagement. The purpose of the survey is to gauge the current state of organizational climate, corporate culture and employee engagement within HPB Group and define areas and steps for further development.

The Bank was again awarded with the annual **Employer Partner** Certificate, as a recognition of sustained application of best practices and a certificate of an organization focused on excellent human resource management.

Quality education and lifelong learning opportunities for all. Mindful of the fact that human capital and expertise make up an integral part of business, HPB Group recognizes continued employee development as one of the key corporate principles. HPB Group empowers employees to develop their talents, innovation and creativity, and to push the boundaries of their professional development. We believe in the power of lifelong learning, and with this belief in mind we create and develop training programmes and deliver both **internal and external employee training**.

In the course of 2022 internal training initiatives were mostly focused on regulatory issues, development of retail sales skills, data skills and management skills. External training programmes encompassed professional training and conferences, and a significant number of training initiatives was focused on the development of sales capacities, as well as the development of analytical, communication, negotiation and management competencies. We believe in good leadership, and we believe that people need to be led, motivated and made successful. We therefore strongly promote leadership training for management levels. In addition to internal and external training programmes, new knowledge is acquired, and new skills are developed through eUčionica (eClassrom) platform, which provides employees with regulatory and compulsory training sessions, which are designed to build up and improve daily operations.

Data knowledge nursery is a unique employee data literacy programme that HPB has rolled out and which the management has identified as the leader of development and enhancement of data processes and data quality. The programme is designed with the analogy of a plant nursery in mind, in order to promote the transfer of knowledge and application of the learnings in business operations, as well as to bolster internal knowledge sharing and knowledge creation. This allows us to tie employee development with business operations and the organization's strategic goals, and maximizes value added from investment in learning and development. The aim of the programme is to enhance employee data/analytical competencies, raise awareness of the importance of quality data management and data-driven leadership by creating a data centre of excellence.

HPB runs a comprehensive and continuous onboarding **programme HPB Start**. A specific customized onboarding (development) plan is designed for each new hire, which is consistently monitored and evaluated over the course of the first six months of employment. HPB Start features a Welcome Day, which includes induction and training od new hires, and is organized every two months. The elements of Welcome Day include induction in the work environment, new employees are given a presentation of HPB Group and corporate values, and they are also informed of their rights and obligations, products and operations of the Bank, and opportunities for personal development and advancement.

HPB Group is committed to improving the **financial literacy of customers**. We believe that personal agency about the financial future is vital and that is why we have set out to deliver financial literacy initiatives to educate customers about important banking topics.

With the goal of advancing financial literacy of customers, and focusing on the younger generations, HPB Group conducted a variety of educational activities in 2022, which were made available to all retail customers and entrepreneurs. The Bank regularly engaged in investments in the knowledge of the new generations. In order to advance our financial literacy activities pertaining to the financial future of diverse generations, we carried out a series of educational activities, participated in the European Money Week and created a video series **HPB for financial literacy**.

Achieving **gender equality** at HPB Group is one of our strategic goals. This is a global issue that many organizations worldwide have been tackling. HPB Group has taken systematic efforts to combat every form of workplace inequality, including gender inequality.

HPB has opted for and promoted gender equality for a number of years. We are aware that team diversity positively impacts the quality of decision-making and our success, and we therefore consciously promote and nurture diversity. The Bank has successfully promoted a relatively high percentage of women to management levels for a number of years and has been promoting to management diverse people in terms of age, education, knowledge, skills and experience.

HPB Group is dedicated to creating a work environment accepting and respectful of individual differences. Any form of discrimination is prohibited, with respect to access to any type of professional training and development, upskilling, reskilling, employment terms and conditions, social security, health care, labour rights and the right to membership and activity in employee associations and other organizations. All employees have equal opportunities to engage in professional training, professional growth and development. Discrimination of a person seeking employment and a person who is employed is prohibited, including all direct or indirect discrimination on the basis of gender, race, skin colour, ethnic or social descent, genetic characteristics, language, religion or faith, political or any other opinion, minority group membership, assets, birth, disability, age or sexual orientation.

HPB Group has adopted a **new Code of Ethics**, which outlines the principles, guidelines and requirements pertaining to ethical business with all persons and entities that HPB Group is in contact with in the course of its operations - customers, employees, community, shareholders, regulatory authorities, contractual partners, competition. The Code of Ethics goes beyond a list of rules that we adhere to and introduces a value system we believe in and we are committed to. Managing a complex system such as a credit institution requires not only due diligence of a prudent manager, i.e., regulatory and best practice compliance, but it also necessitates agility, timely decision-making and a goal-oriented culture. Therefore, the principles of conduct stipulated in the Code of Ethics guide us to raise the standards in the daily operations at HPB Group. Pursuant to the provisions of the Anti-Corruption Strategy and Plan of the Republic of Croatia, HPB has appointed an Ethics Officer who is responsible for receiving and addressing reports of breaches of the Code of Ethics.

By signing the **Diversity Charter** Croatia in 2022, which is spearheaded by the Croatian Business Council for Sustainable Development (HR PSOR), HPB joined a European initiative to drive the progressive development of a modern society.

8 DECENT WORK AND ECONOMIC GROWTH

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

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

HPB also drives the development of the Croatian economy by **participating in financing vehicles provided by the Croatian Bank for Reconstruction and Development (HBOR)**, providing favourable SME financing. HPB is one of fifteen commercial banks that had signed the Cooperation Agreements on interest subsidy instruments from the funds of the National Recovery and Resilience Plan (NRRP), in the amount of almost EUR 80 million.

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

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

Cooperation with development institutions, primarily with HBOR and EIB, enables HPB to secure more favourable lending conditions for investments that result in stronger innovation, energy efficiency, better environmental protection and overall enhanced business and export competitiveness. By offering such credit lines, the Bank ensures portfolio sustainability and facilitates access to financing for special groups of entrepreneurs such as young entrepreneurs, minorities, the elderly, women or the disabled.

Home ownership is a key challenge for everyone, especially for young families. HPB therefore cooperates with counties, cities and local communities to foster initiatives which encourage access to home ownership. In this year's tranche of APN Housing Loan Scheme with government subsidy, HPB achieved the best results since the launch of the programme. HPB is one of the most active banks within the APN Housing Loan Scheme, and the successful streak continued in 2022 with over 550 approved loans in the total volume of HRK 425 million.

In addition to providing incentives through credit lines, HPB actively **participates in professional conferences** aimed at bolstering sustainable community development. HPB is driven to positively impact the community development and to preserve the environment. **Donations and sponsorships** are made to foster and reinforce projects of cultural, scientific and social importance.

In the course of 2022, our employees continued to take part in volunteering activities withing the **Volunteer for Croatia** programme, supporting people in need and contributing to environmental protection.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

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

HPB Group strives to achieve **carbon neutrality** and implements measures to reduce greenhouse gas emissions (GHG emissions), including Scope 1, 2 and 3 emissions from either direct or indirect activities. In 2022 the Bank started calculating Scope 1 and Scope 2 emissions.

Within the **Environmental, Social and Governance Policy**, the umbrella document which defines the sustainable business principles, HPB Group adopted the Supplier Principles, setting out the main principles and expectations from suppliers who already have or wish to establish a long-term business relationship with the Bank and Group members. Suppliers are encouraged to preserve natural resources, avoid the use of hazardous materials and reduce, reuse and recycle with the obligation to adhere to HPB Group's ethical principles, while complying with regulatory norms.

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

HPB Group has been consistently reducing the volume of printed pages for several years, and our goal is to be even more responsible in paper use. In order to set an example and to join our customers, who have been increasingly choosing **online communication with the Bank**, HPB Group employees are encouraged to digitally archive documentation and carry out business processes through digital channels to the greatest extent possible. Choosing online communication is more environmentally friendly, faster and a simpler alternative to paper printing.

In line with the Decision on the method of providing public municipal waste collection services in the City of Zagreb from 24 February 2022, and with the aim of facilitating recycling, as of 1 October 2022, waste is disposed of in suitable containers for waste separation at all HPB Group premises and facilities in the City of Zagreb. For each type of waste, the colour and number of containers is determined in line with the provisions of the Ordinance on the waste catalogue.

HPB Group continued to **responsibly dispose of waste paper** at all its premises and facilities, utilizing authorized waste paper removal companies or independently using designated containers.

All **electronic waste** (old computers, printers, fax machines) are adequately disposed of by companies authorized to dispose of this type of waste. The entire printer system operating at HPB is networked, while the supplier is responsible for the monitoring of toner consumption.

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

Throughout 2022 the Bank carried out many activities focused on the preservation of the environment.

A large-scale eco-volunteering project **Plant with HPB** launched in August 2021 was completed in February 2022. The Bank brought together its customers, public stakeholders and employees and engaged them in this socially responsible initiative contributing to the creation of a healthier environment for all of us and for the generations to come. Over HRK 60,000 in donations was raised, and HPB matched the difference necessary for the purchase and a planting campaign of 30,000 seedlings across Croatia, thereby symbolically marking 30 years of HPB. The volunteers covered a total of seven areas in the reforestation campaign.

HPB volunteers joined the Green Cleanup action as part of the global **World Cleanup Day**. This largest environment volunteer national campaign is aimed at combating the global solid waste problem, raising awareness of the mismanaged waste crisis. We contributed by cleaning up one illegal landfill in Zagreb.

HPB has been continuously improving its mobile channels and the virtual **e-Branch**, which relies on remote communication with customers, online product and service contracting, digital documentation and qualified digital document signatures. These business practices enhance the availability of products and services to the existing and potential customers of the Bank, while simultaneously making a significant positive impact on the environment. The use of eBranch also reduces the impact of vehicles on the environment, and digital documents and signatures in communication with customers reduce paper volumes. Additionally, eBranch reduces the needs for physical office premises, drives down energy consumption and scales down the resources necessary for the operations.

HPB opted to **reorient capital flows towards a more sustainable economy** and investments in order to achieve sustainable and inclusive growth, manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues; and foster transparency and long-termism in financial and economic activity.

HPB Group is oriented on providing financing support to projects aimed at reducing carbon emissions and mitigating climate change and will not knowingly finance projects which violate these principles. In order to regulatory comply with EU Directives, the Bank will determine ESG risks, in particular environmental and climate-related risks, within the capital adequacy assessment process. The first step in the **implementation of climate-related and environmental physical risks in the Bank's operations** is the creation of an address model, that is, a geospatial database of the Bank's real estate collateral and real estate that is the subject of financing. This will be the basis for the development of relational tables for the calculation of climate-related and environmental physical risks and assigning appropriate risk values to individual elements of the address model using GIS tools. The bank has already launched development of the address model and the calculation of climate-related and environmental physical risks for the existing customers, while full implementation in business processes is planned in 2023.

In the 2021 Non-Financial Report, the Bank first reported on its impact based on the first two environmental objectives of the Taxonomy Regulation: (1) climate change mitigation, (2) climate change adaptation, and reported on **three Taxonomy Key Performance Indicators of impact on climate change** - rational use of paper, electricity and water. Given that in 2021 the Bank did not have an established data collection model on the consumption of electricity and gas in kWh and water in m3 across the business premises and facilities, invoiced costs were used as parameters for determining the KPIs.

In 2022, the Bank developed a data collection model on the consumption of electricity and gas in kWh and water in m3 and collected data on energy and water consumption for 2022, which is also established as the base year for Taxonomy-aligned goal setting.

The Bank will disclose new Taxonomy-aligned environmental objectives by 2030 in the 2022 Sustainability Report.

Report on Application of the Corporate Governance Code

Application of the Corporate Governance Codea

Pursuant to Article 272p of the Companies Act and Article 22 of the Accounting Act, the Management Board and the Supervisory Board declare that the Bank, as an issuer of shares listed on the regulated market of the Zagreb Stock Exchange, applies the Corporate Governance Code (Code) developed jointly by the Croatian Financial Services Supervisory Agency (HANFA) and the Zagreb Stock Exchange. ZSE), and is publicly available on their website *www.zse.hr* and *www.hanfa.hr*.

The bank operates, to a large extent, in accordance with good corporate governance practices and the recommendations of the Code with clarifications of exceptions within the annual Questionnaire on compliance with the Code, approved by the Management Board and the Supervisory Board, which is published on the ZSE website (*www.zse.hr*), in the Official Register prescribed information at HANFA (*www.hanfa.hr*) and the Bank's website (*www.hpb.hr*).

The established high standards of corporate governance were also recognized by HANFA, assigning the Bank in December 2021 an award for the best compliance with the Code of Corporate Governance for 2020 on the Official Market of the Zagreb Stock Exchange p.l.c.

The Bank applies the Code of Corporate Governance of Companies in which the Republic of Croatia has shares or stakes, adopted by the Government of the Republic of Croatia (Official Gazette 132/2017) at the end of 2017 in which it seeks to contribute with its business strategy and key internal acts to transparent and efficient operations and better relations with the business environment in which it operates through the application of anti-corruption provisions and mechanisms, measures and procedures to manage conflicts of interest.

In addition to the recommendations of the aforementioned codes, and in accordance with the regulations of credit institutions, the Bank continuously works to improve corporate governance and business transparency as a basis for the protection of shareholders, investors, clients, employees and other stakeholders, bearing in mind the structure and organization of the Bank, strategy and business objectives, effective supervision over the management and responsibilities of the Management Board and the Supervisory Board with special emphasis on effective procedures for determining, measuring and monitoring and reporting on risks in the Bank's operations, as well as establishing appropriate internal control mechanisms.

The Bank has established a system of internal controls that ensure effective direct supervision, integrated operation of procedures and processes for monitoring the efficiency of the Bank's operations, reliability of financial reporting and compliance with legal and by-laws as well as good business practices. The Bank's internal control system is realized through the parallel operation of three mutually independent functions: the risk monitoring function, the compliance monitoring function and the internal audit function. The main features of the internal control system are reflected in the independence of the holders of control functions responsible for the identification, assessment and management of risks, including risk control and the compliance function, while internal audit monitors the entire operations of the Bank and the Group with the aim of assessing the adequacy of the established internal control system.

In order to reduce risk in the financial reporting process, the Bank has established an appropriate system of internal controls and risk management that is ensured through a clear delineation of responsibilities of participating organizational units in accordance with internal acts, and adequate and effective internal controls integrated into business processes and activities. At the same time, the Bank engaged an external auditor and organized the application of constant financial supervision in financial reporting and in making the necessary decisions from that segment. A description of the basic features of conducting internal control in the company and risk management in relation to financial reporting can be found in the description of the Bank 's operations in Note 2.

Significant shareholders and restrictions on share rights

The Republic of Croatia is the most important individual shareholder of the Bank with 44.90% of the Bank's shares and together with the HP - Croatian Post p.l.c., Croatian Deposit Insurance Agency, Croatian Pension Insurance Institute and the Krško NPP Fund hold over 77% of share capital and voting rights at the General Assembly. In accordance with the Bank's Statute, one share gives the right to one vote, i.e. the right to vote is not limited nor are there any restrictions for exercising the right to vote.

The Bank's shareholders exercise their rights at the General Assembly of the Bank. The General Assembly of the Bank decides on issues determined by the Companies Act and the Bank's Articles of Association. As a rule, the General Assembly is convened by the Bank's Management Board, and must be convened when requested by the Supervisory Board or shareholders in accordance with the relevant provisions of the Companies Act. The right to participate in the General Assembly of the Bank and to exercise the right to vote may be exercised by each shareholder in person or by proxy if he announces his participation in the General Assembly no later than six days before the General Assembly and if he is registered in the Central Depository submitting an application for participation in the work of the General Assembly.

Rules for the Appointment or Removal of the Management Board, Statute Changes and Special Authorizations of the Management Board

On the Bank as a legal entity of special interest for the Republic of Croatia, as determined by the Decision on Legal Entities of Special Interest for the Republic of Croatia ("Official Gazette", No. 147/2021), the procedures for selecting and appointing candidates for the Bank's management board members and the conditions that must to be filled in by candidates for members of the Bank's management (president and members of the management), are prescribed by the provisions of the Government Regulation of the Republic of Croatia on the conditions for the selection and appointment of members of supervisory boards and boards of legal entities of special interest to the Republic of Croatia and the manner of their election ("Official Gazette", number 12 /2019) (Regulation of the Government of the Republic of Croatia).

In accordance with Bank's Statute Management Board should have at least 2 and no more than 5 members with Supervisory Board deciding on the number. Members and President of Management Board are appointed by Supervisory Board to a maximum of 5 years, and can be reappointed without time limit.

In addition to the conditions from the above-mentioned Government Regulation of the Republic of Croatia, Member of the Management Board must fulfill all the necessary conditions set by the Companies Act, the Credit Institutions Act and the Decision on Assessing the Suitability of the President of the Board, a member of the Board, a member of the Supervisory Board and a key function holder in a credit institution "Official Gazette", number 20/2021 and 104/2022), which received the prior consent of the Croatian National Bank for the performance of the function to which it is appointed.

The suitability of an individual member of the Management Board of the Bank to perform the relevant function is the extent to which that person has the characteristics and meets the prescribed conditions to ensure that he will professionally, legally, safely and stably perform tasks within its competence.

The members of the Management Board must together have the professional knowledge, skills and experience necessary for the independent and autonomous management of the Bank's business, and in particular for understanding the Bank's business and significant risks.

Members of Bank's Management Board must perform full-time management and be employed by Bank.

Supervisory Board may, by its decision, recall the President and members of Management Board when there is an important reason, and President and members of Management Board are entitled to make written resignations.

The Bank's Statute can only be changed by the decision of the General Meeting. Decision is approved if voted by 3/4 of the shareholders. A proposed Decision on amendments to the Statue is submitted by the Management Board to the Supervisory Board, which is authorized to accept the proposal and submit it to the General Assembly for consideration.

By the decision of the General Assembly of May 10, 2021, the Bank's Management Board was authorized to acquire the Bank's treasury shares on the organized securities market during the period from the date of the General Assembly decision to the next regular General Assembly of the Bank in 2022., whereby the share of capital related to the acquisition of treasury shares together with treasury shares already held by the Bank may not exceed 1% of the share capital. By the same Decision of the General Assembly, the Management Board is authorized to dispose its treasury shares outside the regulated market for the purpose and in accordance with regulatory requirements related to variable remuneration in accordance with the Bank's and HPB Group's Renumeration Policy.

Pursuant to the above-mentioned authorizations of the General Assembly, the Bank's Management Board has initiated a program to buy back treasury shares starting on January 19, 2022 and lasting until the next regular General Assembly of the Bank in 2022, with the intention of acquiring up to a maximum of 341 treasury shares with the allocated amount of HRK 350,000.00, for the payment of variable receipts in accordance with the Renumeration Policy of the Bank and HPB Group.

In accordance with the Treasury Repurchase Program, the Bank, in the period from January 19 to January 26, 2022, on the regulated market of the Zagreb Stock Exchange p.l.c. purchased a total of 341 treasury shares. Prior to the acquisition, on January 18, 2022, the Bank held 795 treasury shares, which represented 0.039266% of the Bank's share capital, and after the acquisition, on January 27, 2022, a total of 1,136 treasury shares, which represented 0.056109% of the Bank's share capital. For the aforementioned acquisition, the Bank provided an equivalent value in the amount of HRK 277,600.00.

On February 23, 2022, the Bank sold all 1,136 of treasury shares outside the regulated market of the Zagreb Stock Exchange p.l.c. hence, the Bank has no more treasury shares in the treasury account.

At the general assembly meeting held on August 29, 2022, the Bank's Management informed the General Assembly about the reasons and purpose of acquiring treasury shares, their number and share in the share capital, and the equivalent value of what the Bank gave for those shares.

Supervisory Board Members and Activities

The procedures for selecting and appointing candidates for members of the Bank's Supervisory Board and the requirements that candidates for members of the Bank's Supervisory Board must meet are prescribed by the directive of the Regulation of the Government of the Republic of Croatia on the conditions for the selection and appointment of members of supervisory boards and management boards of legal entities of special interest to the Republic of Croatia and their selection method. ("Official Gazette ", number 12/2019) (Regulation of the Government of the Republic of Croatia).

In accordance with the Bank's Statute, the Supervisory Board may have a maximum of seven members elected and recalled by the General Assembly.

In addition to the requirements from the above-mentioned Regulation of the Government of the Republic of Croatia, only a person who meets the conditions prescribed by the Companies Act, the Credit Institutions Act and the Decision on Assessing the Suitability of the President of the Management Board, a member of the Management Board, a member of the Supervisory Board and the holder of a key function in the Supervisory Board can be elected as a member of the Supervisory Board ("Official Gazette" no. 20/2021 and 104/2022), and that has received the prior consent of the Croatian National Bank to perform the function of a member of the Supervisory Board.

The members of the Supervisory Board must together have the expertise, skills and experience necessary for independent and autonomous supervision of the Bank's operations, and in particular for understanding the Bank's operations and significant risks.

The suitability of an individual member of the Bank's Supervisory Board to perform the relevant function is the extent to which that person has the characteristics and meets the prescribed conditions to ensure that he will professionally, legally, safely and stably perform tasks within its competence.

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

In the period from 1.1. to 31.12.2022 Supervisory Board of the Bank consisted of three members:

- mr.oec. Marijana Miličević, President
- prof. dr.sc. Mislav Ante Omazić, Vice-president
- mr.sc. Marijana Vuraić Kudeljan, Member

The members of the Supervisory Board of the Bank were appointed at the General Assembly held on May 10, 2021 for a term of 4 years and their mandate began on August 13, 2021 upon obtaining the CNB's prior approval in accordance with the terms of the Credit Institutions Act.

The members of the Supervisory Board are not the shareholders of the Bank.

During 2022, in the current composition of the Supervisory Board, the condition of independence was fulfilled at all times by one member of the Bank's Supervisory Board, which ensured the functioning of the Supervisory Board and its committees in accordance with the directives of current regulations.

Meetings of the Supervisory Board are usually held once a quarter (quarterly), and more often if necessary, and at least once every six months. The Supervisory Board may make decisions on important and urgent issues without holding a meeting, in which case the members express themselves in writing, by telephone, or e-mail.

In 2022, 12 regular meetings of the Supervisory Board were held, at which many issues related to the Bank's operations were discussed. All members of the Supervisory Board were present at 10 regular meetings, with the exception of 2 meetings where one member was legitimate absent. An overview of the attendance at Supervisory Board sessions in 2022 is contained in the table below:

Supervisory Board Member	Total number of meetings	Attendance at meetings	
		Number of meetings	%
Marijana Milićević	12	12	100.00
Mislav Ante Omazić	12	12	100.00
Marijana Vuraić Kudeljan	12	10	83.33

Beside regular meetings, Supervisory Board decided 110 times outside the meeting by e-mail in situations when individual decisions had to be made promptly, most of which referred to the Supervisory Board's consent of the Bank's exposure to individual clients in accordance with legal regulations, as well as other decisions that required the Supervisory Board's consent. During 2022, the Supervisory Board and its committees regularly held their meetings that were significantly attended by all members who continuously cooperate, have a balanced composition and the necessary expertise in accordance with the requirements of the credit institution's operations. Each member, with his role and responsibility, contributed in an appropriate and efficient manner to the work of each individual committee, which arise from the results of the regular annual assessment of the adequacy of the members of the Supervisory Board, which was carried out by the Adequacy Assessment Committee in accordance with the positive regulations that apply to credit institutions established in the Bank. Based on the results of the assessment, it was assessed that during 2022, on an individual and collective basis, the composition of the Supervisory Board was balanced according to the criteria of skills, experience, competence, age and gender, i.e. that the members of the Supervisory Board possess high moral standards, different knowledge, abilities and professional and practical experience necessary for the proper performance of their tasks, whereby the special request that at least one member of the Supervisory Board be an expert in the field of accounting and/or auditing of financial reports is also met. In the described way, the necessary balance was established in the composition of the Supervisory Board, as well as the appropriate level of representation of women (in the current composition, 66.7%), which is above the target level.

The Management Board and the Supervisory Board cooperated well and constructively and shared relevant information necessary for the accomplishment of their tasks, thereby contributing to the accomplishment of the supervisory function. The Supervisory Board could at any time request and receive information from the Bank's Management Board on issues of the Bank's operations that significantly affect or could affect its position, especially including information on the risk profile for which the Bank's Management Board provided the Supervisory Board with appropriate input. During the entire business year 2022, successful and transparent cooperation was manifested in an open discussion between the Management Board and the Supervisory Board of the Bank. Members of the Management Board attended the sessions of the Supervisory Board and, within the framework of the business domains for which they are competent and in charge, referred to certain issues and provided the Supervisory Board with the requested additional explanations, all with the goal of the Supervisory Board thoroughly discussing all items on the agenda and taking informed aspect on them and made the necessary decisions. Accordingly, the Supervisory Board considers its cooperation with the Bank's Management to be successful.

The Supervisory Board has established the following committees: Audit Committee, Risk Committee, Remuneration Committee, Nomination Committee and ESG Committee, which were established with the aim of making competent judgments on all issues within their jurisdiction. The Bank's management ensured access to information and data for the needs of the Supervisory Board's efficient work, as well as the availability of relevant professional services, control functions and, if necessary, advice from external experts for the areas within the competence of each board.

Audit Committee

In the period from January 1 to August 25, 2022, the Audit Committee was composed of three members:

- dr.sc. Željko Lovrinčević, president
- Ivana Radeljak Novaković, vice-president
- prof. dr.sc. Mislav Ante Omazić, member

Due to changes in functions within the Audit Committee, in the period from August 26 to December 31, 2022, the Bank's Audit Committee was composed of three members:

- prof. dr.sc. Mislav Ante Omazić, president
- dr.sc. Željko Lovrinčević, vice-president
- Ivana Radeljak Novaković, member

The General Assembly of the Bank, by its Decision dated May 10, 2021, appointed external experts to the Audit Committee of the Bank, Ms. Radeljak Novaković and Mr. Lovrinčević, the latter of whom also fulfills the condition of independence in accordance with the provisions of the current regulations. In order to fulfill the legal minimum required number of members of the Audit Committee from Article 65, Paragraph 3 of the Audit Act ("Official Gazette" No. 127/2017), the Supervisory Board of the Bank, by its Decision of 13 August 2021, appointed Mr. Omazić, the current independent member of the Supervisory Board, as a member of the Audit Committee of the Bank, so that in the current composition of the Audit Committee, the condition of independence in relation to the Bank is fulfilled by two members, Mr. Omazić and Mr. Lovrinčević, which ensures the functioning of the Audit Committee in accordance with directives of the applicable regulations.

In 2022, 10 regular sessions of the Audit Committee were held. All members of the Audit Committee were present at 9 regular sessions, except for 1 session, from which one member was legitimate absent. The overview of attendance at the sessions of the Audit Committee in 2022 is contained in the table below:

Audit Committee Member	Total number of meetings	Attendance at meetings	
		Number of meetings	%
Mislav Ante Omazić	10	10	100.00
Željko Lovrinčević	10	10	100.00
Ivana Radeljak Novaković	10	9	90.00

In addition to regular sessions, the Audit Committee decided outside the sessions 8 more times by e-mail, in situations when it was necessary to promptly make certain decisions/conclusions within its competence.

Issues within the jurisdiction of the Audit Committee were discussed at the sessions. The Audit Committee assisted the Supervisory Board in the performance of duties related to the supervision of the financial reporting process, the audit process (including the recommendation to the General Assembly for the selection of an external auditor), the effectiveness of the internal audit system by discussing the annual work plans and periodic reports of the internal audit and all significant issues that related to this area.

Report on the work of the Audit Committee in 2022

In 2022, the Audit Committee of the Bank worked in a composition of three members, with changes in the functions of the members within the committee itself during the year.

Pursuant to the Decision of the Audit Committee on the election of the president and vice-president of the Audit Committee dated August 25, 2021, which decision was made for a period of application of one year from the date of adoption, in the period from January 1, until August 25, 2022, Željko Lovrinčević held the position of president of the Audit Committee, Ivana Radeljak Novaković held the position of vice-president, and Mislav Ante Omazić held the position of member.

Following a mutual agreement between the current members of the Audit Committee of the Bank, the Decision of the Audit Committee on the election of the president and vice-president of the Audit Committee dated August 26, 2022 resulted in a change of functions within the committee itself, so that in the period from August 26 to August 31, 2022, On December 12, 2022, Mislav Ante Omazić held the position of president of the Audit Committee, Željko Lovrinčević held the position of vice-president, and Ivana Radeljak Novaković held the position of member.

During 2022, the Audit Committee held 10 regular sessions, where discussions and decisions were made within the competence and responsibility of this committee, as regulated by the Decision on Establishment and the Rules of Procedure of the Audit Committee. In addition to the regular sessions, the Audit Committee decided 8 times outside of the sessions via e-mail.

Within its jurisdiction, the Audit Committee assisted the Supervisory Board in the performance of duties related to the supervision of the financial reporting process, the process of conducting the statutory audit (including the recommendation to the General Assembly for the selection of an external auditor) and the effectiveness of the internal audit system.

In carrying out its duties and tasks related to the financial reporting process, the Audit Committee supervised the financial reporting process in such a way that it analyzed and considered financial reports on a quarterly and annual basis and monitored the integrity of the Bank's financial information as well as the correctness and consistency of the accounting methods used by the Bank including the criteria for consolidating HPB Group's financial statements. Audit Commitee also supervised the audit of financial statements by the external auditor and reported to the Supervisory Board on the outcome of the mandatory audit based on the previously discussed and analyzed report of the certified auditor, giving an overview of the identified key audit issues and the cooperation of the Bank's Management with the certifited auditors.

At three sessions of the Audit Committee, representatives of the certified external auditor, who was selected for the purpose of auditing the financial reports of the Bank and HPB Group, were present.

The Audit Committee also fulfilled its task of making a recommendation to the Supervisory Board for the selection of an external auditor, having previously considered and analyzed whether the external auditor meets the conditions of independence and impartiality defined by the Audit Act, and then the terms of engagement as well as the remuneration for his work.

At the meetings of the Supervisory Board, the president of the Audit Committee reported to the Supervisory Board on the board's activities, analyzed important issues, and adopted conclusions and recommendations.

The audit committee performed its functions in accordance with the independence principle.

Risk Committee

In the period from 1.1. to 31.12.2022 the Risk Committee was composed of three members:

- mr.sc. Marijana Vuraić Kudeljan, President
- mr.oec. Marijana Miličević, Member
- prof. dr.sc. Ante Mislav Omazić, Member

In 2022, the Risk Committee held 10 regular sessions. All members of the Risk Committee were present at 9 regular sessions, with the exception of 1 session, from which one member was legitimate absent. An overview of the attendance at the meetings of the Risk Committee in 2022 is contained in the table below:

Risk Committee Member	Total number of meetings	Attendance at meetings	
		Number of meetings	%
Marijana Vuraić Kudeljan	10	9	90.00
Marijana Miličević	10	10	100.00
Mislav Ante Omazić	10	10	100.00

In addition to the regular sessions, the Risk Committee decided 4 more times outside of the sessions by e-mail, in situations where certain decisions/conclusions within its competence had to be made in a short period of time.

At the meetings of the Committee for Risks, issues from its jurisdiction were discussed in accordance with the Credit Institutions Act and its by-laws.

Report on the work of the Risk Committee in 2022

In 2022, the Risk Committee was composed of three members, appointed by the Supervisory Board of the Bank. Marijana Vuraić Kudeljan was the president of the Risk Committee, while Marijana Miličević and Mislav Ante Omazić were members.

During 2022, the Risks Committee held 10 regular sessions, where they discussed the competences and responsibilities of this committee as regulated by the current legislation, the provisions of the internal act of establishment and the rules of procedure. In addition to the regular sessions, the Risk Committee decided 4 times outside of the sessions via e-mail.

During 2022, the Risk Committee provided support to the Bank's Supervisory Board in the implementation of its strategic supervisory duties regarding the risk management framework and risk-taking tendencies in accordance with the Bank's risk management business strategy, goals, corporate culture and values.

As part of its duties and tasks, the Risk Committee discussed regular reports in the area of risk management and control, analyzing the implementation of capital management strategies and all significant risks, especially liquidity risk, market risks, credit risk, operational risk and reputational risk, assessing their appropriateness in relation to the approved risk appetite and risk management strategy.

The Risk Committee considered and approved the plans of the Risk Control Function and the Compliance Monitoring Function for the year 2022 and considered regular reports on the work of these control functions. The persons responsible for the work of individual control functions are invited to the sessions where the annual plans and reports of the control functions are considered.

Remuneration Committee

In the period from January 1 to December 31, 2022, the Remuneration Committee was composed of three members:

- mr.oec. Marijana Miličević, president
- mr.sc. Marijana Vuraić Kudeljan, member
- prof. dr.sc. Mislav Ante Omazić, member

In 2022, the Remuneration Committee held 8 regular sessions. All members of the Remuneration Committee were present at 6 regular sessions, with the exception of 2 sessions where one member was legitimate absent. An overview of the attendance at the meetings of the Remuneration Committee in 2022 is contained in the table below:

Remuneration Committee Member	Total number of meetings	Attendance at meetings	
		Number of meetings	%
Marijana Miličević	8	8	100.00
Marijana Vuraić Kudeljan	8	6	75.00
Mislav Ante Omazić	8	8	100.00

In addition to the regular sessions, the Remuneration Committee decided 16 times outside of the sessions via electronic mail, in situations where certain decisions/conclusions within its competence had to be made in a short period of time.

At the meetings of the Remuneration Committee, issues from its jurisdiction were discussed in accordance with the Credit Institutions Act and its by-laws.

Report on the work of the Remuneration Committee in 2022

In 2022, the Remuneration Committee was composed of three members, appointed by the Bank's Supervisory Board. Marijana Miličević held the position of president of the Remuneration Committee, while Marijana Vuraić Kudeljan and Mislav Ante Omazić held the position of members.

During 2022, the Remuneration Committee held 8 regular sessions, where they discussed the competences and responsibilities of this committee as regulated by the current legislation and the provisions of the internal founding act. In addition to the regular sessions, the Remuneration Committee decided 16 times outside of the sessions via e-mail.

Within its competences, the Remuneration Committee evaluated the principles of receipts and provided support to the Supervisory Board regarding the regular review and analysis of the general principles of the Remuneration Policy, its amendments and additions, as well as the supervision of the implementation of the rules on receipts by reviewing procedures and practices related to the Bank's receipts and a member of the HPB Group and the compliance of the receipts policy and implementing acts that define work performance management.

During the year, in the performance of its duties and tasks, the Remuneration Committee reviewed the report on the status of the implementation of the Remuneration Policy, amendments to the Remuneration Policy and the Ordinance on Work Performance Management, the achievement of goals, key performance indicators (KPI), target values and KPI weights for the previous 2021 and the allocation of the same for the year 2022, the identification of employees with a significant impact on the risk profile of the HPB Group, and considered proposals for the Supervisory Board on all topics related to remuneration that are within the competence of the Supervisory Board.

Nomination Committee

In the period from 1.1. to 31.12.2022 Nomination Committee was composed of three members as follows:

- mr.oec. Marijana Miličević, President
- mr.sc. Marijana Vuraić Kudeljan, Member
- Prof. dr. sc. Mislav Ante Omazić, Member

In 2022, the Nomination Committee held 8 regular meetings. All members of the Nomination Committee were present at 6 regular sessions, with the exception of 2 sessions where one member was legitimate absent. An overview of the attendance at the meetings of the Nomination Committee in 2022 is contained in the table below:

Član Odbora za primitke	Total number of meetings	Attendance at meetings	
		Number of meetings	%
Marijana Miličević	8	8	100.00
Marijana Vuraić Kudeljan	8	6	75.00
Mislav Ante Omazić	8	8	100.00

In addition to the regular sessions, the Nomination Committee decided 6 more times outside of the sessions via e-mail, in situations where certain decisions/conclusions within its competence had to be made promptly.

At the sessions of the Nomination Committee, issues from its jurisdiction were discussed in accordance with the Credit Institutions Act and its by-laws.

Report on the work of the Nomination Committee in 2022

In 2022, the Nomination Committee was composed of three members, appointed by the Supervisory Board of the Bank. Marijana Miličević held the position of president of the Nomination Committee, while Marijana Vuraić Kudeljan and Mislav Ante Omazić held the position of members.

During 2022, the Nomination Committee held 8 regular sessions, where they discussed the competences and responsibilities of this committee as regulated by the current legislation, the provisions of the internal act of incorporation and the rules of procedure. In addition to the regular sessions, the Nomination Committee made decisions outside of the sessions another 6 times via e-mail.

In order to ensure the continuity of decision-making and functioning of the Bank's Management Board, the Nomination Committee, in accordance with the standard of good corporate governance, established a succession plan for nominations to positions in the Bank's Management Board, in consultation with the President of the Supervisory Board and the President of the Management Board.

Furthermore, within the framework of its duties and tasks, during 2022, the committee reviewed the provisions of the internal acts that define the target structure of members of the Supervisory Board, members of the Management Board and control functions of the Bank, as well as the conditions and procedures for assessing their adequacy, giving recommendations to the Supervisory Board for their alignment with the changes and amendments to the relevant regulations governing that area.

The Committee also considered the internal Diversity Policy for the members of the Bank's Management Board and Supervisory Board and also agreed to improve its provisions as well as to appoint a person who will be in charge of managing diversity in the Bank's management body in a management and supervisory capacity.

ESG Committee

In order to establish supervision over the management of environmental, social and government factors and the standardization of processes and factors related to sustainability and ESG, the Supervisory Board appointed an ESG Committee on December 23, 2022, consisting of three members:

- prof. dr.sc. Mislav Ante Omazić, president
- mr.oec. Marijana Miličević, member
- mr.sc. Marijana Vuraić Kudeljan, member

Given that the ESG Committee was established at the end of 2022, no meeting was held until December 31, 2022.

Management Board Members and Activities

The privileges, duties and responsibilities of the Bank's Management Board in managing and representing the Bank are determined by the Companies Act, the Credit Institutions Act, the Bank's Statute and the Rules of procedure of the Bank's Management Board activities.

The Management Board of the Bank, in accordance with the needs of business processes, establishes permanent and occasional committees and commissions. The Bank's standing committees are the Credit Committee, the Assets and Liabilities Management Committee and the Operational Risk Management Committee.

In the period from 1.1. to 31.12.2022 the Management Board consisted of three members, as follows:

- mr.sc. Marko Badurina, President of the Management Board
- Ivan Soldo, Member of the Management Board
- Anto Mihaljević, Member of the Management Board.

Members of the Management Board are not the shareholders of the Bank.

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

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

The average target level of representation of the currently underrepresented gender - female - in the Bank's governing body is determined by the percentage of at least 33.3% that the Bank aims to achieve in the five-year period from 2021 to 2026, which is currently met at the overall level. governing body.

In the reporting period, the Bank's Supervisory Board consists of two members and one member, which makes the composition diverse by gender, given that the percentage of female representation is 66.7%, which is above the target level of at least 30% female representation in the Supervisory Board.

In the reporting period, the Bank's Management Board consists of the President of the Management Board and two members, which currently does not meet the criteria of gender diversity, given that the percentage of female gender is 0.0%, which is below the target level of 20%. in the Management Board of the Bank

During 2022, the balance of the Supervisory Board and the Management Board was established according to the criteria of skills, experience, competencies and age, which is evident from the CVs of the Supervisory Board and the Management Board published on the Bank's website (*www.hpb.hr*). The fact that the Croatian National Bank took into account the positive results of the assessment of suitability on an individual and collective basis for the members of both bodies during the procedure of deciding on the prior consent for the performance of a particular relevant function. The Bank is aware of the importance of promoting diversity and non-discrimination policies in the workplace and in employment, so the representation of women is relatively high among key management (detailed in the Human Resources Management section of Hrvatska poštanska banka), and continues to strive for the continuous improvement of the development of inclusiveness and non-discrimination on any basis in the management of the Bank.

Overview of diversity policy

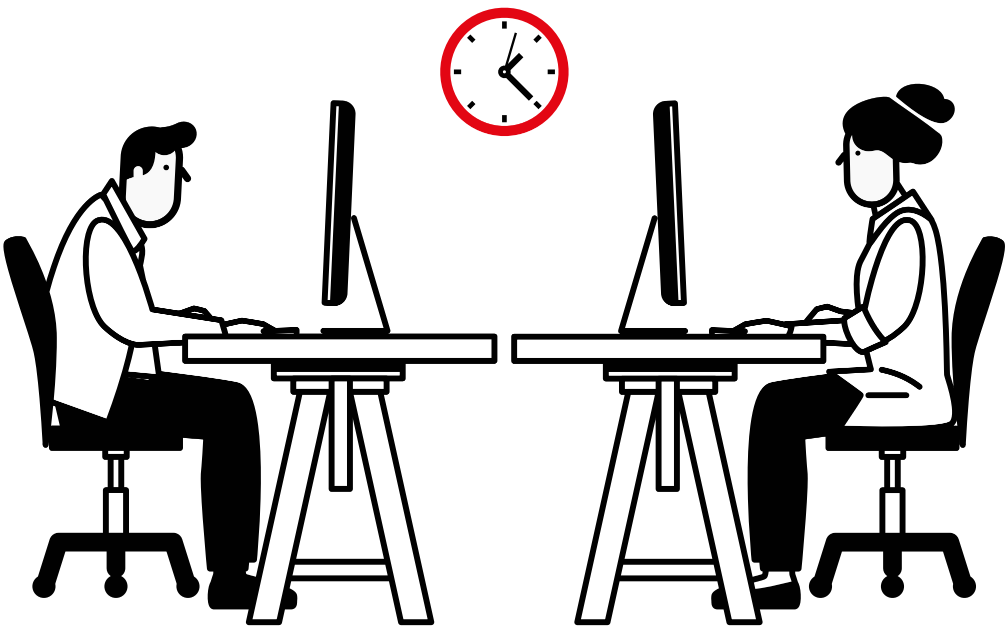
In accordance with the Code of Ethics, the Bank appreciates and respects the natural and cultural differences between people. All employees are equal regardless of gender, age, nationality, ethnic origin, religion, language, social, economic status and other discriminatory factors. Accordingly, in 2021, the General Assembly of the Bank adopted the Diversity Policy for the members of the Management Board and the Supervisory Board of the Bank. All employees have the same opportunity for success in the Bank and their position depends solely on the performance and performance of each individual. There is no discrimination by sex, age or any other basis in procedure of selecting members of the Management Board, Supervisory Board or other bodies. The Bank has relatively high percentage of female managers, as well as people of different age groups, educational orientation, knowledge and skills and specific work experience. The Bank will keep this policy of gender, age and professional diversity, where the number of key management has decreased over the years through organizational improvements. In this way, the strategy of achieving the goals of diversity is implemented, which is based on the development of inclusiveness in the management of the Bank, ie the promotion of opportunities for advancement at all levels, regardless of gender.

With regard to employee remuneration and working conditions, in order to achieve equal opportunities for both sexes, the Bank's management insists on striking a balance between private and business life, with the aim of creating a healthy and comfortable working environment. All employees have an equal opportunity to succeed in the Bank, and their position depends solely on the work results and performance of each individual.

The collective experience of members of the Bank's key management consists of a balanced combination of the necessary knowledge and skills to fulfill the responsibilities of all functions and achieve the Bank's objectives.

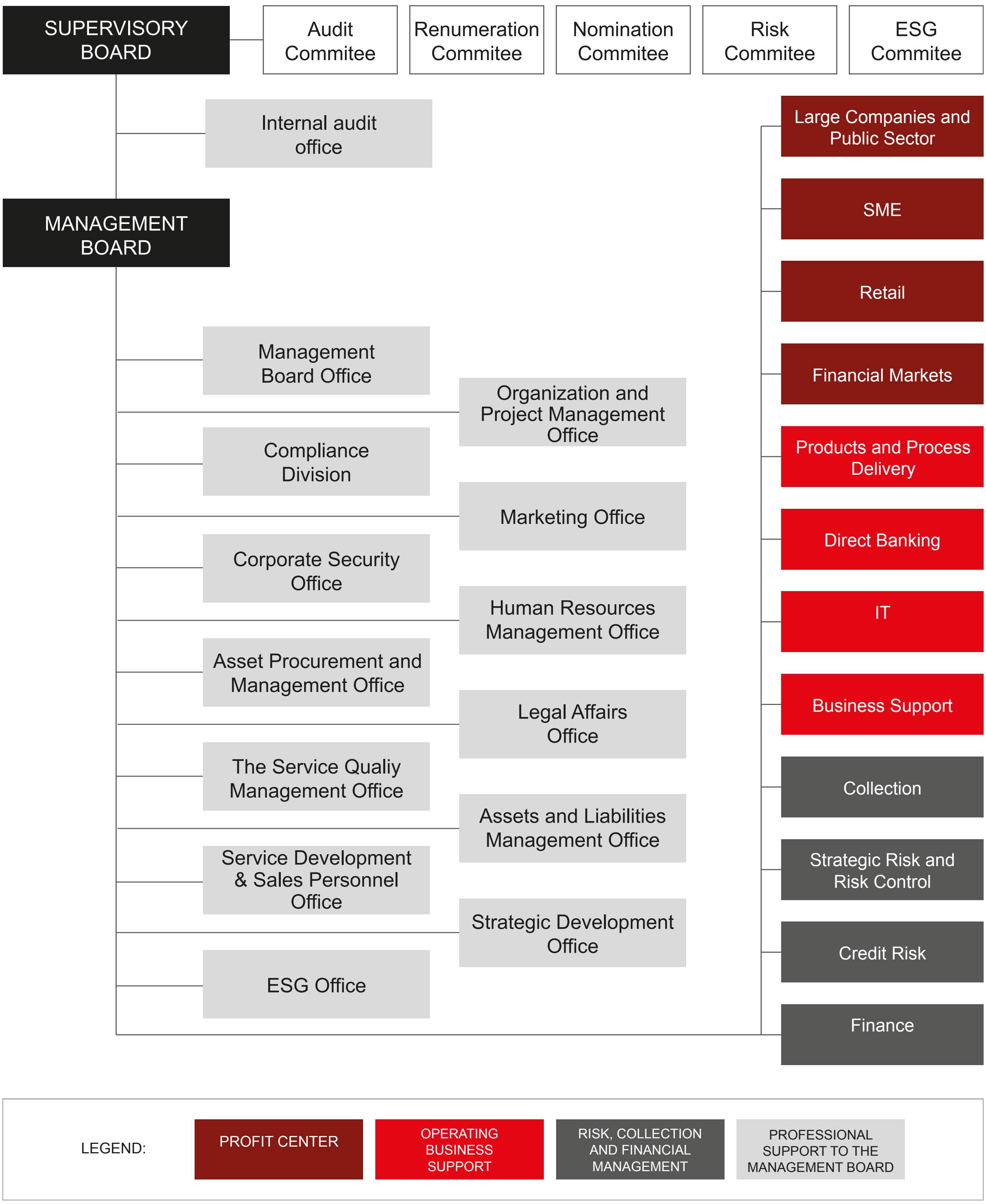
Structure of the Bank's key management by gender 2019 - 2022

	No during 2019	Share during 2019	No during 2020	Share during 2020	No during 2021	Share during 2021	No during 2022	Share during 2022
Male	19	47.50%	20	57.15%	17	54.83%	14	53.85%
Female	21	52.50%	15	42.85%	14	45.17%	12	46.15%



Hrvatska poštanska banka organizational structure

The Bank’s operations are organized through 26 organizational units - 13 sectors and 13 offices, as follows:



The Bank’s organizational unites are divided into 4 basic business areas including:

1. Professional support to the Management Board,
2. Profit centers,
3. Operating business support,
4. Risk, collection and financial management.

Business area functionally and technologically connects certain Bank’s organization units to ensure efficient management and business organization.

1. Professional support to the Management Board implies groups of tasks whose purpose is to provide the Management Board with professional support in achieving business goals and organizing and managing the Bank.

Professional support to the Management Board is consisted of:

- Internal audit office,
- Management Board office,
- Compliance division,
- Organization and project management office,
- Human resources office,
- Marketing office,
- Corporate security office,
- The service quality management office,
- Legal affairs office,
- Asset procurement and management office,
- Assets and liabilities management office,
- Strategic development office,
- Service development and sales personnel office,
- ESG office.

Internal audit office is the Bank’s organizational unit that evaluates internal control and risk management system, compliance function and performs IT audit.

Management Board office is an organizational unit that provides support in the work of permanent authorities and committees of the Bank, and provides professional support in the management of corporate communications of the Bank and members of the HPB Group.

Compliance division is an organizational unit that takes care of the compliance of the Bank’s operations with regulations, manages the system of personal data protection and privacy protection, the system of fraud prevention and the system of prevention of money laundering and terrorist financing in the Bank.

Organization and project management office is an organizational unit that analyzes and improves the organization and business processes and manages projects.

Human resources office is an organizational unit of the Bank that deals with recruiting candidates for employment, developing and rewarding the Bank’s employees, as well as regulating organizational capacities, policies and practices of performance management and rewarding employees, regulating labor-legal relations with employees and state bodies, legal relations and the rights and obligations of employees arising from labor relations.

Marketing office is an organizational unit of the Bank that prepares and implements marketing and promotional activities for the Bank.

Corporate security office is an organizational unit of the Bank that takes care of the security of the Bank’s information system, people and assets.

The service quality management office is an organizational unit of the Bank that manages the quality of the Bank's service to its clients through continuous implementation of measuring and researching customer satisfaction and proposing improvements to build up the quality of service.

Legal affairs office is an organizational unit of the Bank that provides legal support to all organizational units of the Bank.

Asset procurement and management office is an organizational unit of the Bank that manages the procurement of goods and services, general affairs and registration and archives of the Bank, current business and investments and maintenance of the Bank's operating assets and manages assets taken in exchange for uncollected receivables.

Assets and liabilities management office is an organizational unit of the Bank that manages assets and liabilities, open currency items, market risk positions and liquidity risk positions.

Strategic development office is the organizational unit of the Bank in charge of business development of the Bank and HPB Group, the process of strategic planning and control of the implementation of the strategic plan of the Bank and HPB Group.

Service development and sales personnel office is an organizational unit of the Bank in charge of supporting the development and improvement of the service model and sales staff to organizational units that enter into business relations and do business with retail clients and small and medium enterprises.

ESG office is an organizational unit of the Bank in charge of managing environmental, social and management factors that affect the Bank's operations.

2. Profit center represent related groups of transactions organized into organizational units in which all products and services of the Bank are sold.

Profit centers are consisted of:

- Retail department,
- SME department,
- Large corporate and public sector department,
- Financial markets department.

Retail department is an organizational unit of the Bank that operates on the market and provides banking and financial services to the retail clients on market principles, coordinates the work of regional retail centers and branches of the Bank and the company Hrvatska pošta p.l.c./Croatian post p.l.c (hereinafter: HP). as a distribution channel and centrally manages business with HP.

SME department is an organizational unit of the Bank that operates on the market and establishes business relations with the Bank's clients in the area of business with small and medium-sized enterprises on market principles.

Large corporate and public sector department is an organizational unit of the Bank that operates on the market and establishes business relations with the Bank's clients in the area of business with large corporates and the public sector on market principles.

Financial markets department is an organizational unit of the Bank that trades in financial instruments on behalf and for the account of the Bank, manages liquidity and foreign exchange position of the Bank and provides investment services and investment activities and related services within the Bank's activities.

3. Operating business support represent related groups of operations organized into organizational units in which support is provided for the sale of products and services and the overall operations of the Bank.

Operating business support is consisted of following departments:

- Products and Delivery Processes management,
- Direct Banking,
- Business Support,
- Information Technology.

Products and Delivery Processes management is an organizational unit that provides efficient processes, products and services that will meet the needs of customers and business and sales goals of the Bank.

Direct Banking is an organizational unit responsible for the smooth operation and development of all direct distribution channels of products and services of the Bank and members of the HPB Group and card business (ATM, POS, WEB, e-Branch, mBanking and eBanking)

Business support is an organizational unit of the Bank that provides operational support to organizational units of the profit centers, performs domestic and foreign payment operations, cash management and supplies the business network of the Bank and HP with cash.

Information Technology is an organizational unit of the Bank that provides IT support to all organizational units of the Bank.

4. Risk, collection and finance management represent groups of operations organized into organizational units in which risk management, collection of the Bank's receivables and financial management are performed.

Risk, collection and financial management is consisted of following departments:

- Credit risk management,
- Strategic risk and risk control management,
- Collection management,
- Finance management.

Credit risk management is an organizational unit of the Bank that performs the function of taking risks and manages the process of determining the creditworthiness of clients and assessing the credit risk of placements in the process of approving placements.

Strategic risk and risk control management is an organizational unit of the Bank that manages strategic risks, analyzes and controls all types of risks to which the Bank is exposed or could be exposed in its operations, in order to reduce potential exposure to all types of risks and ensure stability and efficiency of operations.

Collection management is an organizational unit of the Bank that performs receivables restructuring and activities of early and forced collection of receivables.

Finance management is an organizational unit of the Bank which manages the Bank's accounting system, performs regulatory reports, financial controls and develops management reporting system.

Human resource management in HPB

During 2022, the Bank continued to develop positive practices in human resource management in accordance with the Bank's strategy and corporate values.

The continuous development of the Bank's operations in accordance with the defined strategy is supported by the employment of expert employees in the digital domains of operations and the development of the competencies of existing employees in order to be able to successfully respond to the needs of the market and clients.

Significant progress in the development of the Bank's employees was achieved through the introduction of the Knowledge Nursery model and more intensive use of digital online learning platforms. The launch of the Data Nursery, which aims to improve the data-analytical competencies of employees, emphasizes independent learning and encourages the development of personal development plans of employees.

During 2022, a model of key competencies was developed that reflects the corporate values related to the vision and mission of the Bank, and a model of managerial competencies was additionally defined. The biggest step forward in defining professional competencies was made within the IT sector, where the methodology for determining key positions and employees was developed, which is the basis for talent management and a positive step towards systematic management of progress.

For the purpose of promoting the Bank as a desirable employer and more efficient employment of IT profiles of employees, a plan of employer branding activities was prepared at the beginning of the year. Valuable insights were obtained through a survey conducted in the IT sector and more intensive cooperation was achieved with faculties in the technical domain.

In order to improve the organizational climate, culture and engagement, an organizational vitality survey was conducted, the results of which were presented to all employees. Improvement measures have been designed to be implemented in the coming years at the Bank level. The conducted research is important because it represents the beginning of systematic management of organizational climate, culture and engagement.

Human resource management processes have been further improved and digitized. A completely new digital system for the employment process has been implemented and the process for the introduction of a new information system for human resource management has been launched. By continuously improving the work performance management system with a special focus on the education of line management, the Bank encourages the organization's focus on achieving results and building a culture of excellence.

By continuously revising the employee remuneration policy, defined rules and payment adjustment cycles, the employer's attractiveness and high employee engagement are ensured in challenging market circumstances.

Business-responsible and cost-effective management of employees is ensured by monthly reporting to the Bank's management on key indicators related to human resources, such as the total cost and number of employees, voluntary and involuntary turnover, absences, etc.

In order to facilitate and more efficient implementation, the process of proposing and implementing organizational changes and related changes in employment contracts and employee compensation has been structured.

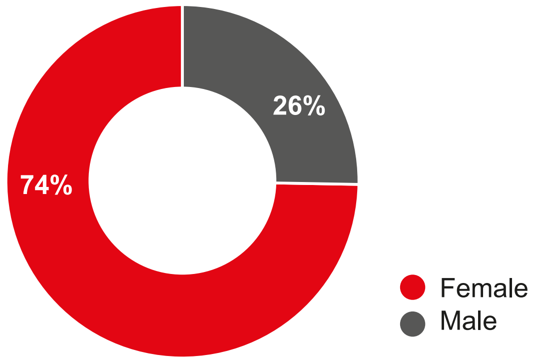
The Bank is in the process of renewing the "Employer Partner" certificate and continues to further improve the human resources management process.

Overview of the movement of the number of employees in the Bank 2018 – 2022

No. of employees	31.12.2018	31.12.2019	31.12.2020	31.12.2021	31.12.2022
Based on the working hours	1,036	1,063	1,275	1,279	1,293
At the end of the period	1,118	1,252	1,301	1,289	1,321

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

Structure of employees in Hrvatska poštanska banka by gender as of 31.12.2022:



Educational structure of employees in a Bank 2018 – 2022

Employees with high or higher education have a dominant share in the educational structure, depending on the complexity of the job and workplace.

Qualification	31.12.2018	31.12.2019	31.12.2020	31.12.2021	31.12.2022
Master's degree/ doctorate	12	19	27	45	63
University degree	473	539	566	550	534
Higher education	193	203	210	211	235
High school education	439	490	497	482	488
Semi-skilled, skilled and highly skilled	1	1	1	1	1
Total	**1,118**	**1,252**	**1,301**	**1,289**	**1,321**

Number of employees in Hrvatska poštanska banka by years of service as of 31.12.2022:

Subsidiaries operations

HPB Invest Ltd

HPB Invest Ltd (hereinafter referred to as the Company) is a company established for the purpose of establishing and managing UCITS funds. HPB Invest Ltd. on 31.12.2022 manages 6 open-end investment funds with a public offering (HPB Short-term Kuna bond fund, HPB Short-term euro bond fund, HPB Bond fund, HPB Bond plus fund, HPB Global fund and HPB Equity fund).

Total assets of open-end investment funds with a public offering managed by HPB Invest Ltd as at 31 December 2022 amounts to HRK 588 million (2021: HRK 913 million). The average assets in 2022 amounted to HRK 800 million, and in the previous year HRK 892 million.

Due to the emergence of record high inflation worldwide, caused by the post-pandemic effect, the war in Ukraine and long delays in supply chains, there was the largest drop in bond prices in the last 40 years, which is the reason why yields on bond funds were extremely negative. Furthermore, there were significant corrections on the world stock markets, which had an extremely negative effect on the returns of mixed and stock funds. Due to all of the above, we recorded a larger decline in assets, both due to negative returns and outflows, and total assets at the end of the year were significantly lower than at the beginning of the year.

Despite the difficult market conditions, the company had no problems with client payments, since it gives significant importance to careful and high-quality management of fund liquidity.

The asset structure of the funds under management is as follows:

Fund	Asset under management HRK '000	Yield as at 31.12.2022
HPB Equity fund	28,382	(16.54%)
HPB Global fund	80,292	(15.88%)
HPB Short-term kuna bond fund	212,549	(2.06%)
HPB Bond fund	150,192	(10.97%)
HPB Short-term euro bond fund	65,590	0.00%
HPB Bond Plus fund	51,151	(8.17%)

Market share of HPB Invest as at 31.12.2022 is 3.72%, which represent a decrease compared to the previous year when market share was 4.35%.

At the end of 2022, the Company had 11 employees.

Development plan

HPB Invest Ltd, a UCITS fund management company, will continue to be committed to professional asset management and high-quality service, in order to ensure the preservation and sustainable growth of the value of their financial assets to its clients. With continuous investment in the development policy of the Company, which includes continuous professional, personnel, organizational and technological improvements, with increasingly demanding legal and regulatory harmonization of operations, HPB Invest Ltd will provide in the long run an attractive range of funds and investment products, which with professional management and appropriate returns can meet all the needs of investors, depending on their investment goals, investment horizon and risk appetite.

Risk exposure

The Company specifically monitors and measures the following risks: credit risk, liquidity risk, operational risk, conflict of interest risk and reputational risk. These risks form the overall risk profile of the Company.

The Company has taken a conservative stance in managing its assets by investing them exclusively in bank deposits, debt securities, money market instruments and money market funds. For this reason, the risk profile of the Company is low, i.e. 1.

At the reporting date, the Company was not exposed to significant market risk and liquidity risk. The majority of the Company's exposure to credit risk at the statement of financial position date arises from the fair value of the instrument whose positive value at reporting date is presented in the statement of financial position.

The Company is exposed to operational risk through its regular operations. The Company manages operational risk by reporting quarterly to the Company's Management Board on events that may qualify as operational risk for the Company.

Risks that may affect the Company's regular operations are the risk of a decrease in assets under management due to the withdrawal of client funds and the risk of a decrease in assets under management due to a decline in the value of assets.

The Company gives special importance to the internal control system in order to be able to monitor the efficiency of operations, compliance with legal regulations, monitoring and detection of risks to which the Company is exposed.

HPB-nekretnine Ltd.

HPB-nekretnine Ltd (hereinafter the Company) is a real estate company established in August 2005 and is wholly owned by HPB p.l.c. The share capital of the Company amounts to HRK 4,760,800 (EUR 631,866.75 converted at the fixed conversion rate of EUR 1 = HRK 7.53450) and the amount was paid in full.

The Company's core business activities are (1) real estate appraisal and related engineering services such as financial supervision, (2) real estate consulting and mediation services, and (3) real estate operations and management.

HPB-nekretnine Ltd assets on December 31, 2022, it amounts to HRK 12,953,335 (EUR 1,719,203.00 converted at the fixed conversion rate of EUR 1 = HRK 7.53450), and the net profit realized in the past year is HRK 2,613,596 (EUR 346,883.80 euros converted at a fixed conversion rate of 1 euro = HRK 7.53450). At the end of 2022, the Company had 15 employees.

Development plan

In the coming period, the emphasis will be on increasing the efficiency and quality of service for clients of Hrvatska poštanska banka p.l.c. and Nova hrvatska banka p.l.c. by digitalizing the Company, we will increase the level of efficiency and transparency of operations, thereby contributing to the efficiency of both employees and the Company as a whole. At the same time, by actively approaching external clients, we plan to continue to increase the share of external clients in the Company's total revenues.

Risk exposure

The most significant types of financial risks to which the Company is exposed are market risk and liquidity risk. Market risk implies a difficult to predict volume of demand for specific services of the Company given the uncertainty in the real estate market caused by inflation, rising energy prices and rising interest rates on bank loans and the war in Ukraine. Market risk refers to the inability of tenants to pay rents as well as the possibility of reducing the demand for real estate appraisal services, and related liquidity risk due to the high share of services in the Company's products. The Company manages risks in accordance with the prescribed policies and procedures of Hrvatska poštanska banka p.l.c.

The company owns part of the office building in Vinkovci, which consists of several office spaces. Ownership of real estate in Vinkovci represents a risk in business because it is a share of ownership 267/900 in an office building with a total area of about 10,000 m2, which is in worse construction condition. Public tenders for the lease and sale of business premises are published several times a year with the aim of commercializing as many business premises as possible owned by the Company.

Nova hrvatska banka p.l.c

On March 1, 2022, the resolution procedure for Sberbank p.l.c. was opened and the resolution instrument was applied, which includes the sale of the Bank's shares and the transfer of ownership to Hrvatska poštanska banka p.l.c. (HPB). Upon completion of the resolution process, Hrvatska poštanska banka, as the new owner of the Bank, changed the name of the Bank to Nova hrvatska banka p.l.c. (NHB), a new Management Board was appointed, and the entire rebranding was carried out in a very short period of time. By joining the HPB Group, the Bank stabilized its operations and continued to operate regularly and fulfill all its obligations properly. All relations with the previous owner Sberbank have been successfully resolved, including financing taken over by HPB, licenses for intangible assets, and all open items have been reconciled and settled.

Industry

Nova hrvatska banka p.l.c. is a company founded with the purpose of establishing deposit business, credit and loan approval, commercial business financing, purchase of receivables with or without regress, financial leasing (leasing), issuance of guarantees or other guarantees, payment services in the country and abroad and all other banking operations.

After the resolution procedure started in early March 2022, and completed with the implementation of changes in the court register on April 14, 2022, Hrvatska poštanska banka became the sole and main shareholder of Nova Hrvatska banka.

Key indicators of Nova hrvatska banka p.l.c. are as follows:

KEY INDICATORS OVERVIEW (in HRK mn)	2022	2021
Total assets	9,289	11,090
Client deposits	5,263	7,898
Gross loans to clients	7,705	7,465
Operating income	410	442
Operating expenses	365	308
Profit before tax	(258)	43
Profit after tax	(248)	33
Operating result before provisions and other expenses, after expenses	94	146
Number of employees	457	478
Number of branches	30	30

The volume of retail deposits at the end of the year amounted to HRK 3,185 million, which is a 6%, or HRK 180 million increase compared to the last day of resolution.

Despite the suspension of lending in March, and according to the activities undertaken, the Bank already in April achieved an almost regular monthly volume of loan placements to retail clients, while in the following months there was even an increase in loans compared to the same period of the previous year. The gross loan portfolio to retail clients at the end of the year amounts to HRK 4,707 million. During 2022, the Bank successfully sold a non-performing portfolio on two occasions.

As a result of the crisis, the outflow of deposits from corporate clients was HRK 1,858 million or 56% of the volume, comparing the last day of resolution with the day before the beginning of the crisis. In the period after resolution by the end of the year, 43% or HRK 638 million of lost deposits were returned.

Due to the resolution process of the Bank, during 2022 the Bank was primarily focused on maintaining relations with existing clients, as well as on maintaining the quality of the existing portfolio. Regular and acquisition activities continued, and total placements grew by 10% compared to the end of 2021. At the end of 2022, the credit portfolio of corporate clients amounts to HRK 2,946 million. Throughout the year, the bank enabled clients to use loans from contracted cooperation with HBOR and HAMAG BICRO.

The Bank ended 2022 with a loss after tax of HRK 249 million. Despite all the challenges, the Bank's operational business was stable, and interest and non-interest income was preserved to the greatest extent, with continuous management of cost efficiency. As a basis for business stabilization, the primary focus was on maintaining relationships with existing clients in all segments. The result of this is visible in the return of a large part of lost deposits and in the slight growth of the loan portfolio. The negative result is primarily a consequence of irregular activities, adaptation to the Group's standards and the currently unfavorable macroeconomic environment and preparations for the expected integration, additional provisions for lawsuits and the costs of the euro introduction project. The result from regular operations (excluding the aforementioned influences) is a net profit of almost HRK 26 million, despite the period of limited business activity during the liquidity crisis or resolution. Although the Bank recorded a loss, it is important to note that the level of capital remained at satisfactory levels.

The Bank's regulatory capital at the end of 2022 amounts to HRK 1,090 million, whereby the decrease in capital in 2022 primarily refers to the realized loss and the effect of the reduction of reserves for the fair value of the portfolio, which is valued through other comprehensive income.

Development plan

After the resolution period, in 2022 the Bank was focused on self-financing, the return of primary clients and the growth of deposits, as well as on collection efficiency, especially due to the increased inflation rate and the increase in collection risk, especially in the retail segment. In 2022, one of the key goals was to retain key employees, in order to retain the knowledge and competences essential for the continuation of regular business. Alignment with the practices and policies of the HPB Group in all areas was continuously carried out as the main goal, which will continue in 2023, until the merger with HPB.

A priority was also the euro conversion project, which lasted 18 months, and as part of which more than 120 employees, more than 20 suppliers and 10 other partners were engaged. All key deliveries were realized according to plan, and the Bank successfully continued its operations in the environment of the new currency.

Merger of NHB to HPB

Hrvatska poštanska banka p.l.c. as the sole owner of NHB, when acquiring ownership of NHB in the resolution process, announced as its goal the merger of NHB with HPB.

Accordingly, in August 2022, the General Assembly of HPB passed a decision on granting approval for the formal-legal and business merger of Nova Hrvatska banka p.l.c. to HPB, and as a result of that decision, the Management Board and Supervisory Board of HPB and the Management Board and Supervisory Board of NHB in December 2022 made decisions on initiating the merger procedure. At the end of February and the beginning of March, it is planned to make a decision on the conclusion of the Agreement on the merger of Nova hrvatska banka p.l.c. to Hrvatska poštanska banka p.l.c. and the signing of the Merger Agreement. The intention to merge was previously consulted with the main trade union commissioners of HPB and NHB in accordance with the relevant regulations, who confirmed in a statement dated February 24, 2023 that they are not opposed to the merger. Upon signing the Merger Agreement, a request will be submitted to the CNB for approval of the merger and notify the court, the stock exchange, and the public about the merger.

The merger is carried out according to special rules from Art. 531 of the Companies Act: Merger in special cases. The merger will not result in an increase in the share capital of HPB as the acquiring company. The merger results in the transfer of all assets and liabilities of NHB to HPB, while it does not result in changes in the shareholder structure of HPB. The position of each shareholder of HPB in relation to his share in the share capital and voting rights remain unchanged.

After the merger, NHB will cease to exist as a legal entity and will be deleted from the court register.

Exposure to risks

The Bank's risk management strategy aims to define general parameters for prudent and continuous risk management, which necessarily derive from the Bank's business model. The key principles of ensuring the consistency of capital adequacy and liquidity are integrated into all business activities, strategic planning throughout the organization, and constant business development in accordance with the defined tendency to take risks. Regular implementation and monitoring of stress resistance testing within the framework of determining risk bearing capacity, for the purpose of comprehensive management of materially significant risks (credit risk, interest rate management risk in the bank's book, currency, operational, concentration risk) inherent in the Bank's operations increases the Bank's resistance to macroeconomic risk.

The Bank's key aims in 2022 were the allignment of risk management methodologies with HPB and preparation for the planned merger of the Bank with HPB in 2023. The most significant methodological changes in this relation refer to: client classification (definition of default at the client level in the retail segment, changes in the criteria for Stage 2 classification) and adjustments to the calculation of provisions for the performing portfolio (adjustment of the IFRS 9 methodology).

The ratio of non-performing loans (NPL) increased compared to the previous year, primarily due to adjustment of calculations and alignment with Group policies, implementation of a new default definition at the client level in the retail segment, and an unfavorable macroeconomic environment. Despite this, the Bank maintained a satisfactory level of the non-performing loans ratio through successful management through early and late collection, sale of non-performing retail exposures and the commitment of Bank's management.

In the area of market risks and liquidity risks, the Bank continued to improve processes related to the management, monitoring and control of exposure to market risks and liquidity risk according to business needs and in accordance with new circumstances.

In the area of interest rate risk, the Bank continued to improve the process related to interest rate risk management in the Bank's book, all in accordance with the supervisor's recommendations and best business practices.

In the area of operational risk, the collection of data on events caused by operational risk, self-assessment of operational risks of organizational units, education and awareness raising of employees about operational risks (including outsourcing and internal control system) and optimization of applications for tasks related to fraud prevention, and additional process improvement.

The Bank has made additional provisions for received and potential effects from lawsuits.

Pronam Nekretnine Ltd

Pronam Nekretnine Ltd, Zagreb ("Company"), MBS: 080413774, OIB 52440723676, was registered as a limited liability company at the Commercial Court in Zagreb in 2001 under the name Volksin Ltd. and on October 29, 2013, it was renamed to Sberbank Nekretnine Ltd., and on August 18, 2014, the company was renamed to Pronam Nekretnine Ltd. The Company's headquarter is at Varšavska street 9, in Zagreb.

The main activity of the company is the rental of real estate owned by the company.

The sole owner of the Company is HRVATSKA POŠTANSKA BANKA p.l.c. (HPB p.l.c.) which acquired a 100% stake in the Company on 05.07.2022, from SBAG IT-Services GmbH, the previous owner, based on the Share Purchase Agreement. The consolidated financial statements of the smallest group of entrepreneurs in which the entrepreneur participates as a subsidiary company were compiled by Sberbank Group in 2021, and in 2022 by the parent company HRVATSKA POŠTANSKA BANKA p.l.c., Jurišićeva ulica 4, Zagreb.

Asset of the Pronam Nekretnine Ltd as of December 31, 2022, it is HRK 59.33 million, and the net profit realized in the past year is HRK 4,964 thousand. At the end of 2022, the Company had one employee.

The company owns three properties, one in Rijeka, the other two in Zagreb, which are leased to Nova Hrvatska banka p.l.c. and a small part leased to Hrvatska poštanska banka p.l.c. The Company's main income is income from rentals of its own real estate.

On September 13, 2022, the Company passed the Decision on initiating the merger procedure by transferring all assets and liabilities to the parent company HRVATSKA POŠTANSKA BANKA p.l.c., Jurišićeva ulica 4, Zagreb, MBS: 080010698, OIB: 87939104217, EUID: HRSR.080010698. The merger agreement was concluded on November 11, 2022. As of December 31, the Company is still operating independently. The merger process is expected until the end of the first quarter of the year 2023.

Responsibilities of the Management Board for the preparation and approval of the Annual financial statements

Management Board is responsible for preparation of consolidated and separate financial statements of Hrvatska poštanska banka p.l.c. (hereinafter “the Bank”) for each financial year that give a true and fair view of the financial position of the Group and the Bank and their results and cash flows in accordance with applicable standards, and is responsible for keeping the proper accounting records required for the preparation of these financial statements at any given time. The Management Board is also responsible for the whole annual report of the Group, as well as the forms of financial statements prepared in accordance with the Decision of the Croatian National Bank on the structure and content of bank’s annual financial statements (Official Gazette 42/18, 122/20, 119/21 and 108/22). The Management Board has overall responsibility for taking such measures to safeguard the assets of the Bank and the Group and to prevent and detect fraud and other irregularities.

Management Board is responsible for selecting appropriate accounting policies that comply with applicable accounting standards and for their consistent application; making reasonable and prudent judgments and estimates; and preparing the financial statements on an going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Management Board is obliged to submit the Annual report to the Supervisory Board for approval, which includes the annual financial statements. If the Supervisory Board gives consent to the financial statements, they are approved by the Management Board and the Supervisory Board of the Bank.

The Management Board is responsible for preparation and contents of the annual report in accordance with the Accounting Act (Official Gazette 78/15, 134/15, 120/16, 116/18, 42/20, 47/20 and 114/22).

Consolidated and separate financial reports presented on pages that follow, as well as Forms drafted in line with CNB Decision on Forms and Contents of Bank Financial Reports (Official Gazette 42/18, 122/20, 119/21 and 108/22), outlined on pages that follow, were approved by the Management Board on March 30, 2023 and have been submitted for acceptance to the Supervisory Board.

As a sign of confirmation, financial reports are signed by persons authorized for representation, as follows

Signed on behalf of Hrvatska poštanska banka, p.l.c.

Marko Badurina
President of the Management Board

Ivan Soldo
Member of the Management Board

Anto Mihaljević
Member of the Management Board

Independent Auditor's Report

Independent Auditor's Report

To the Shareholders of Hrvatska poštanska banka d.d.

Report on the audit of the separate and consolidated financial statements

Our opinion

In our opinion, the separate and consolidated financial statements present fairly, in all material respects, the separate and consolidated financial position of Hrvatska poštanska banka d.d. (the "Bank") and its subsidiaries (together - the "Group") as at 31 December 2022, and the Bank's and the Group's separate and consolidated financial performance and separate and consolidated cash flows for the year then ended in accordance with the statutory accounting regulations for credit institutions in the Republic of Croatia as defined in Note 1 to the financial statements.

Our opinion is consistent with our additional report to the Audit Committee dated 29 March 2023.

What we have audited

The Banks's separate and the Group's consolidated financial statements comprise:

- the separate and consolidated statements of financial position as at 31 December 2022;
- the separate and consolidated statements of profit or loss for the year then ended;
- the separate and consolidated statements of other comprehensive income for the year then ended;
- the separate and consolidated statements of changes in equity for the year then ended;
- the separate and consolidated statements of cash flows for the year then ended; and
- the notes to the separate and consolidated financial statements, which include significant accounting policies and other explanatory information.

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

Independence

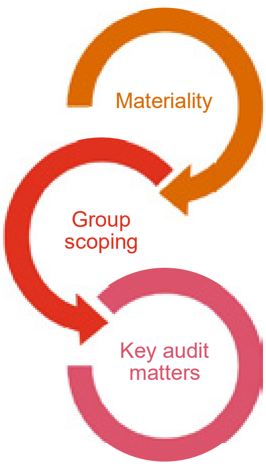
We are independent of the Bank and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that the non-audit services that we have provided to the Bank and the Group are in accordance with the applicable law and regulations in Croatia and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014

The non-audit services that we have provided to the Bank and the Group, in the period from 1 January 2022 to 31 December 2022, are disclosed in Note 13 to the separate and consolidated financial statements.

Our audit approach

Overview



- Overall Bank materiality: HRK 26,144 thousand, which represents 1% of net assets.
- Overall Group materiality: HRK 34,425 thousand, which represents 1% of net assets.

- We conducted audit work at 2 reporting units.
- Our audit scope addressed 100% of the Group's interest income and 99% of the Group's absolute value of underlying profit before tax.

- The Bank and the Group: Estimate of credit loss allowances for loans and receivables from customers
- The Group: Estimate of fair value of identifiable assets and liabilities of Sberbank p.l.c. – in resolution at the acquisition date
- The Group: Provisions for litigation claims related to loans originally issued in, or indexed to Swiss Franc

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate and consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate and consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the separate and consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the separate and consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the separate and consolidated financial statements as a whole.

Overall Bank and Group materiality	The Bank: HRK 26,144 thousand The Group: HRK 34,425 thousand
How we determined it	The Bank and the Group: 1% of net assets
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because the Bank's and the Group's business fundamentally changed in 2022 by the acquisition of Nova hrvatska banka d.d. (former Sberbank p.l.c. – in resolution) providing a more relevant basis for determining materiality. Furthermore, a net asset is the benchmark which is closely monitored by shareholders, with shareholders' strong focus on regulatory compliance measured by the capital adequacy. We chose 1% which is consistent with quantitative materiality thresholds used for credit institutions.

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.

Key audit matter	How our audit addressed the key audit matter
Estimate of credit loss allowances for loans and receivables from customers (the Bank and the Group) Refer to section *Expected credit loss* in the note *Financial instruments (Note 8, 9, 10, 11)*, Note 11 *Loans and receivables from customers* and Note 2.1 *Credit risk* to the financial statements for detailed information on the expected credit loss ("ECL") for loans and receivables from customers. As at 31 December 2022, the Bank and Group had credit loss allowances for loans and receivables from customers of HRK 1,546 thousand and HRK 2,016 thousand, respectively. We focused on this area during the audit due to the significance of the amounts involved for the separate and consolidated financial statements and also because the management makes complex and subjective judgements over both the timing and size of the expected credit losses, which makes it a complex area of accounting. For loans with low credit risk and defaulted loans that are considered not to be individually significant, credit loss allowances are generally collectively measured at an amount equal to 12-month expected credit loss. If a significant increase in credit risk has occurred, credit loss allowances are measured as lifetime expected credit losses. In these cases, the ECL is determined by using the key assumptions being the probability of an account falling into arrears and subsequently defaulting ("PD"), definition of significant increase in credit risk, exposure at the moment of default ("EAD") and the estimated losses from defaulted loans ("LGD"). Statistical models are used for determination of the key assumptions including different future macroeconomic scenarios.	Our audit approach was the following: • We obtained our understanding of the ECL calculation methodology applied by the Bank and the Group, obtained the understanding of model adjustments made as a result of the management's assessment of the macroeconomic impact and assessed their compliance with the statutory accounting regulations for credit institutions in the Republic of Croatia as defined in Note 1 to the financial statements. We engaged our credit risk technical experts to assist us in undertaking this assessment. • We evaluated significant control activities in credit risk management and lending business processes and tested key controls, notably with respect to the approval of loans and ongoing monitoring. • We evaluated control activities and tested key controls in the area of critical data including the customer ratings and collateral valuation, and overall model governance for compliance with the statutory accounting regulations for credit institutions in the Republic of Croatia. • We tested on a sample basis the critical data in the source systems and their input in the ECL calculation engine (probability of default, loss given default and customers ratings). • We assessed the process of incorporating the forward-looking information in the ECL estimates. • We tested, on a sample basis, the correct stage allocation according to the relevant policies. • We performed independent calculation of ECL on a sample basis to confirm the correctness of staging and ECL calculation. • We verified the reconciliation of the output of the ECL calculation tool with the accounting records. • We tested, on a sample bases, the adequacy of individual loan loss allowances, assessing the forecasted scenarios and the estimated expected cash flows.

Key audit matter	How our audit addressed the key audit matter
For defaulted loans considered to be significant at customer level, ECL is determined on an individual basis. In these cases, ECL is determined by using key assumptions being the scenario probabilities, expected cash flows as well as expected proceeds from the realization of collateral (where applicable), adjusted by the Croatian National Bank's ("CNB") requirements for the estimated credit loss calculation.	• We have assessed the disclosures related to credit loss allowances for loans and receivables from customers in the financial statements, with respect to their adequacy and compliance with the statutory accounting regulations for credit institutions in the Republic of Croatia as defined in Note 1 to the financial statements.

Estimate of fair value of identifiable assets and liabilities of Sberbank p.l.c. – in resolution at the acquisition date (the Group)
In April 2022, the Bank acquired Sberbank p.l.c.. – in resolution, which changed the name to Nova hrvatska banka d.d., after the acquisition. As a result of the acquisition, the Group recognized gain on bargain purchase of HRK 1.018.765 thousand.
Note 13 *Investments in subsidiaries* to the financial statements provides information related to this acquisition and related gain on bargain purchase.
Gain on bargain purchase is calculated as a difference between the cash consideration and a fair value of identifiable assets, liabilities and contingent liabilities of Sberbank p.l.c. – in resolution at the acquisition date, which represents the management's best estimate of fair value over each type of identifiable asset, liability and contingent liabilities.
We focused on this area because there are considerable judgements and estimates in applying the statutory accounting regulations for credit institutions in the Republic of Croatia to estimate the fair value of net asset acquired and the significance of the gain on bargain purchase to the Group's financial statements.
	Our audit approach was the following:
	• We obtained an understanding of the process and methodology applied to estimating the fair value of net assets acquired. We engaged our valuation experts to assist us in undertaking this assessment.
	• We obtained a report "Purchase Price Allocation Related to the Acquisition of Nova hrvatska banka d.d." prepared by the independent valuer engaged by the Bank and performed the following:
	    • We reconciled the carrying amount of the asset and liabilities at the acquisition date to the financial statements of Sberbank p.l.c. – in resolution
	    • We assessed the methodology applied by the independent valuer and key inputs and assumptions used in estimating the fair value of assets, liabilities and contingent liabilities.
	    • As a part of our testing of the fair value estimate, we assessed the estimated fair values for reasonableness by comparing key inputs and assumptions to the available public information in order to challenge the key assumptions made by independent valuer.
	• We reconciled information from the report "Purchase Price Allocation Related to the Acquisition of Nova hrvatska banka d.d." and other relevant documentation to the information disclosed in the consolidated financial statements.
	• We have tested the calculation of gain on bargain purchase for mathematical accuracy.
	• We assessed the disclosures related to acquisition in the financial statements, with respect to their adequacy and compliance with the statutory accounting regulations for credit institutions in the Republic of Croatia as defined in Note 1 to the financial statements

Key audit matter	How our audit addressed the key audit matter
Provisions for litigation claims related to loans originally issued in or indexed to Swiss Franc (the Group) As at 31 December 2022, the Group recorded provisions for litigation cases related to loans originally issued in or indexed to Swiss Francs ("CHF"). Note 3, *Estimates and judgments* under heading Pro*visions for litigation initiated against the Group*, and Note 23, *Provisions for Commitments and Contingencies*, to the financial statements provide information related to these provisions for litigation claims. The provision for litigation cases relates 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 and on default interests on loans converted from CHF to EUR, the conversion of which was carried out in accordance with the Consumer Credit Act. Provisions for litigation claims represent the management's best estimate over both the timing and size of the probable outflow of economic resources required to settle the obligation at the reporting date. We focused on this area because there are considerable judgements and estimates in applying the International Accounting Standard 37 to estimating both timing and size of the outflows of economic resources required to settle the Group's obligations resulting from these litigation claims, given their inherent uncertainty.	We performed the following procedures and tests: • We obtained understanding of the process and methodology applied to estimating the provisions for litigations related to loans originally granted in CHF. • We obtained a detailed overview of the litigation claims against the Group for loans denominated in CHF and the analytics of the provisions recognised 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 a part of our testing of the management's estimate, we obtained an independent overview and opinion pertaining to the Group's litigation cases from the external law firms and we assessed the amount of provisions for reasonableness by comparing provisions made with the external law firms' opinion and available public information in order to challenge the key assumptions made by management. • We have tested the calculation of the provisions for litigation claims for mathematical accuracy. • We have assessed the disclosures related to these litigation provisions in the financial statements with respect to their adequacy and compliance with the requirements of the International Accounting Standard 37.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Reporting on other information including the Management Report

Management is responsible for the other information. The other information comprises the Management Report, Corporate Governance Statement and Non–financial Report included in the Annual Report but does not include the 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management Report, Corporate Governance Statement and Non–financial Report, we also performed procedures required by the Accounting Act in Croatia. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act, whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act and whether the Non–financial Report is prepared in accordance with the requirements of Article 21a of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management Report and the Corporate Governance Statement for the financial year for which the separate and consolidated financial statements are prepared is consistent, in all material respects, with the separate and consolidated financial statements;
- the Management Report has been prepared in accordance with the requirements of Article 21 and 24 of the Accounting Act;
- the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act; and
- the Non–financial Report was prepared in accordance with the requirements of Article 21a of the Accounting Act.

In addition, in light of the knowledge and understanding of the Bank and the Group and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management Report and Corporate Governance Statement and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance 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 the statutory accounting regulations for credit institutions in the Republic of Croatia as defined in Note 1 to the financial statements 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 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 or the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and the Group's financial reporting process.

Auditor’s 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s and Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s or 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 independent 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 independent auditor’s report. However, future events or conditions may cause the Bank or 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 those charged with governance, 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 independent auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment

We were appointed as auditors of the Bank by the General Assembly on 29 August 2022. This represents a first year of our audit.

Other Legal and Regulatory Requirements

Based on the Decision on the structure and content of annual financial statements of credit institutions (Official Gazette 42/18, 122/20, 119/21), "Decision"), the Management Board of the Bank prepared the forms presented in the section *Regulatory Financial Statements for the Croatian National Bank* (the “Forms”), which are entitled the Statement of financial position as at 31 December 2022, Statement of profit or loss, Statement of other comprehensive income, Statement of changes in equity and the Cash flow statement of the Bank for the period then ended, together with information to reconcile the Forms to the Bank's financial statements. The Bank's management is responsible for the preparation of the Forms and information on reconciliation. They do not represent an integral part of the audited financial statements, but contain information required by the Decision. The financial information in the Forms is derived from the Bank’s audited financial statements prepared in accordance with statutory accounting regulations for credit institutions in the Republic of Croatia as defined in Note 1 to the financial statements as presented on pages 107 to 240, adjusted for the purposes of the Decision.

Report on compliance of the format of the separate and consolidated financial statements with the requirements of the European Single Electronic Format (“ESEF”) Regulation

We have been engaged based on our agreement by the management of the Bank to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the separate and consolidated financial statements included in the attached electronic file hpb-2022-12-31-en.zip, (hereinafter: the financial statements) of the Bank and the Group for the year ended 31 December 2022 (the “Presentation of the Financial Statements”).

Description of a subject matter and applicable criteria

The Presentation of the Financial Statements has been prepared by the management of the Bank to comply with the requirements of Article 462 paragraph 5 of the Capital Market Act (Official Gazette, No. 65/18, 17/20 and 83/21) (the “Capital Market Act”) and with the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the “ESEF Regulation”). Those regulations require that:

- the financial statements included in the separate and/or consolidated Annual Report, have been prepared in the XHTML format;
- the data included in the separate and consolidated financial statements required by the ESEF Regulation and Capital Market Act have been marked up and all the markups meet the following requirements:
    - the XBRL markup language has been used,
    - the core taxonomy elements listed in the ESEF Regulation with the closest accounting meaning have been used, unless an extension taxonomy element was created in accordance with Annex IV of the ESEF Regulation,
    - the markups comply with the common rules on markups under the ESEF Regulation.

The requirements described above determine the basis for application of the Presentation of the Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the management and those charged with governance

The Bank's management is responsible for the Presentation of the Financial Statements in accordance with the ESEF Regulation and the Capital Market Act. In addition, the Bank's management is responsible for maintaining an internal control system that reasonably ensures the preparation of the Presentation of the Financial Statements which is free from material non-compliance with the requirements of the ESEF Regulation and the Capital Market Act, whether due to fraud or error.

Those charged with governance are responsible for overseeing the process of preparing the Presentation of the Financial Statements in the ESEF format as part of the financial reporting process.

Our responsibility

Our responsibility is to express a reasonable assurance conclusion, based on the audit evidence obtained, whether the Presentation of the Financial Statements complies, in all material respects, with the requirements of the ESEF Regulation and the Capital Market Act. We conducted a reasonable assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information. This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the Financial Statements is prepared, in all material respects, in accordance with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE 3000 (R) will always detect a material misstatement (significant non-compliance with the requirements).

Procedures performed

The nature, timing and extent of the procedures selected are matters for the professional judgment of the auditor.

As part of the selected procedures, we performed in particular the following procedures:

- read the requirements of the ESEF Regulation and the Capital Market Act;
- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Financial Statements, including the preparation of the XHTML format and marking up the separate and consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the separate and consolidated financial statements using the XBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

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

Conclusion

In our opinion, based on the procedures performed and evidence obtained, the Presentation of the Financial Statements for the year ended 31 December 2022 included in the above stated attached electronic file complies, in all material respects, with the ESEF Regulation and the Capital Market Act.

Our conclusion is not an opinion on the true and fair presentation of the financial statements presented in electronic format. In addition, we do not express any form of assurance on the other information disclosed in the documents in the ESEF format.

The engagement partner on the audit resulting in this independent auditor's report is Siniša Dušić.

PricewaterhouseCoopers d.o.o.
Heinzelova 70, Zagreb
30 March 2023

This version of our 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 of our report takes precedence over this translation.

Financial Reports

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in HRK '000		Bank		Group	
	Notes	31.12.2022	31.12.2021	31.12.2022	31.12.2021
ASSETS					
Cash and Cash Equivalents	5	9,919,462	6,192,515	11,091,437	6,192,555
Mandatory Reserve with Croatian National Bank	6	-	1,326,442	-	1,326,442
Loans and Receivables from Banks	7	1,994,752	289,837	211,771	289,837
Financial Assets at Fair Value through Profit and Loss	8	419,087	625,986	508,813	625,986
Financial Assets at Fair Value through Other Comprehensive Income	9	28,547	4,601,297	28,688	4,601,297
Financial Assets at Amortized Cost	10	5,447,266	453	6,001,779	453
Loans and Receivables from Customers	11	15,873,713	14,251,800	23,069,273	14,251,800
Assets Held for Sale	12	-	9,200	-	9,200
Investment in subsidiaries	13	101,105	9,761	-	-
Deferred tax assets, net	17	22,545	-	68,756	-
Tax Prepayment		-	541	26	637
Other Assets	18	158,270	123,297	180,842	124,655
Property, Equipment and asset with right of use	14	293,978	275,543	396,914	277,538
Investment Property	15	44,357	60,629	47,636	67,642
Intangible Assets	16	78,397	65,886	135,791	64,479
TOTAL ASSETS		**34,381,480**	**27,833,187**	**41,741,727**	**27,832,522**
LIABILITIES					
Financial Liabilities at Fair Value through Profit and Loss	19	232	-	232	-
Deposits from Banks	20	217,196	28,025	374,231	28,025
Customer Deposits	21	29,346,210	23,422,089	34,594,738	23,412,844
Borrowings	22	1,789,696	1,396,886	2,527,537	1,396,886
Provisions for commitments and contingencies	23	143,693	88,015	398,241	88,080
Deferred Tax Liabilities, Net	17	-	26,282	-	26,282
Income tax liability		-	35,887	1,658	35,887
Other Liabilities	24	270,017	185,572	402,585	187,770
TOTAL LIABILITIES		**31,767,045**	**25,182,757**	**38,299,222**	**25,175,775**
EQUITY					
Share Capital	25	1,214,775	1,214,775	1,214,775	1,214,775
Treasury shares	25	-	(477)	-	(477)
Reserves for treasury shares	25	4,477	4,477	4,477	4,477
Statutory Reserve	25	50,115	40,010	50,115	40,010
Other Reserves	25	607,387	657,992	607,387	657,992
Fair Value Reserve	25	22,731	212,651	22,731	212,651
Revaluation Reserve	25	37,701	27,543	37,701	27,543
Retained Earnings	25	677,249	493,459	1,505,318	499,776
TOTAL EQUITY AND RESERVES		**2,614,435**	**2,650,430**	**3,442,504**	**2,656,747**
TOTAL LIABILITIES, EQUITY AND RESERVES		**34,381,480**	**27,833,187**	**41,741,727**	**27,832,522**

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

in HRK '000		Bank		Group	
	Notes	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Interests Income using the effective interest method	27	551,675	549,592	776,482	549,592
Other interest income		8,561	6,665	11,121	6,665
Interests Expense	28	(28,003)	(32,084)	(55,556)	(32,087)
Other similar expense		(168)	(62)	(168)	(62)
Net Interest Income		**532,065**	**524,111**	**731,880**	**524,108**
Fees and Commissions Income	29	522,382	482,976	587,122	490,053
Fees and Commissions Expense	30	(315,408)	(290,100)	(326,992)	(291,606)
Net Fees and Commissions Income		**206,975**	**192,877**	**260,130**	**198,447**
Net (Losses)/Gains from Financial Instruments at Fair Value through Profit and Loss	31	(69,202)	25,694	(71,803)	25,694
Realized Gains on Disposal of Debt Securities at Fair Value through Other Comprehensive Income	32	2,118	-	2,118	-
Net Gains from Trading in Foreign Currencies	33	58,121	57,476	60,971	57,476
Other Operating Income	34	10,976	21,053	18,682	24,784
Trading and Other Income		**2,014**	**104,223**	**9,969**	**107,954**
General and Administrative Expenses	35	(493,222)	(442,399)	(695,188)	(450,102)
Other expenses		-	-	-	(22)
Depreciation and Amortization	14,15,16	(70,057)	(67,020)	(98,176)	(67,823)
Gains/(losses) from loan impairment and receivables from customers and other assets	36	31,067	(65,810)	(185,935)	(65,810)
Provisions for Liabilities and Expenses	23	(50,411)	(307)	(59,953)	(307)
Operating expenses		(582,624)	(575,536)	(1,039,250)	(584,064)
Gain on Bargain purchase	13	**-**	**-**	**1,018,765**	**-**
PROFIT BEFORE TAX		**158,430**	**245,675**	**981,493**	**246,445**
Income Tax expense	37	(25,824)	(43,568)	(27,135)	(43,820)
PROFIT FOR THE YEAR		**132,606**	**202,107**	**954,358**	**202,625**

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

in HRK '000	Bank		Group	
	2022	2021	2022	2021
Profit for the Year	**132,606**	**202,107**	**954,358**	**202,625**
Other Comprehensive Income				
Items that will not be reclassified subsequently to profit or loss				
Revaluation Reserve	12,387	6,411	12,387	6,411
Equity instruments in assets carried at other comprehensive income - net change in fair value	929	(1,553)	929	(1,553)
Income Tax Relating to Items That Will Not Be Reclassified Subsequently	(2,230)	(1,612)	(2,230)	(1,612)
	11,087	**3,247**	**11,087**	**3,247**
Items that may be reclassified subsequently to profit or loss				
Unrealized loss from Assets Valued through Other Comprehensive Income	(232,538)	(31,302)	(232,538)	(31,302)
Changes in actuarial gains/losses	-	(3,219)	-	(3,219)
Income Tax Relating to Items That May Be Reclassified Subsequently	41,690	6,493	41,690	6,493
	(190,848)	**(28,027)**	**(190,848)**	**(28,027)**
Other Comprehensive Loss for the Year, net of tax	**(179,762)**	**(24,781)**	**(179,762)**	**(24,781)**
Total Comprehensive Income for the Year	**(47,156)**	**177,326**	**774,596**	**177,844**

in HRK '000	Bank		Group	
	2022	2021	2022	2021
Profit/ (Loss) for the Year	**132,606**	**202,107**	**954,358**	**202,625**
Earnings per share – Basic and Diluted	**HRK 65.50**	**HRK 99.86**	**HRK 471.38**	**HRK 100.12**

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

Group	Share Capital HRK '000	Own Shares HRK '000	Reserve for Own Shares HRK '000	Other and statutory reserves HRK '000	Fair Value Reserve HRK '000	Revaluation Reserve HRK '000	Retained Earnings HRK '000	Total HRK '000
Balance at 1 January 2021	**1,214,775**	**(477)**	**4,477**	**606,971**	**242,231**	**22,744**	**388,181**	**2,478,902**
Revaluation Reserve	-	-	-	-	-	6,411	-	**6,411**
Equity instruments in assets carried at other comprehensive income - net change in fair value	-	-	-	-	(1,553)	-	-	**(1,553)**
Change in the Fair Value of Financial Assets at Fair Value through Other Comprehensive income	-	-	-	-	(31,302)	-	-	**(31,302)**
Change in actuarial gains/losses	-	-	-	-	(3,219)	-	-	**(3,219)**
Deferred Tax	-	-	-	-	6,493	(1,612)	-	**4,882**
Total other comprehensive	**-**	**-**	**-**	**-**	**(29,580)**	**4,799**	**-**	**(24,781)**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**202,625**	**202,625**
Total Comprehensive Income for 2021	**-**	**-**	**-**	**-**	**(29,580)**	**4,799**	**202,625**	**177,844**
Distribution of 2020 Profit								
- Transfer to Statutory and Other Reserves	-	-	-	91,031	-	-	(91,031)	**-**
Balance at 31 December 2021	**1,214,775**	**(477)**	**4,477**	**698,002**	**212,651**	**27,543**	**499,776**	**2,656,747**
Balance at 1 January 2022	**1,214,775**	**(477)**	**4,477**	**698,002**	**212,651**	**27,543**	**499,776**	**2,656,747**
Revaluation Reserve	-	-	-	-	-	12,387	-	**12,387**
Equity instruments in assets carried at other comprehensive income - net change in fair value	-	-	-	-	929	-	-	**929**
Changes in Fair Value of Financial Assets at fair Value through Other Comprehensive Income	-	-	-	-	(232,538)	-	-	**(232,538)**
Deferred Tax	-	-	-	-	41,690	(2,230)	-	**39,460**
Total other comprehensive	**-**	**-**	**-**	**-**	**(189,919)**	**10,157**	**-**	**(179,762)**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**954,358**	**954,358**
Total Comprehensive Income for 2022	**-**	**-**	**-**	**-**	**(189,919)**	**10,157**	**954,358**	**774,596**
Purchase of treasury ahares	-	(205)	-	-	-	-	-	**(205)**
Share based payment	-	682	-	-	-	-	-	**682**
Other changes	-	-	-	-	-	-	10,684	**10,684**
Distribution of 2021 Profit								
- Transfer to Statutory Reserves and other reserves	-	-	-	(40,500)	-	-	40,500	**-**
Balance as at 31 December 2022	**1,214,775**	**-**	**4,477**	**657,502**	**22,731**	**37,701**	**1,505,318**	**3,442,504**

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

Bank

	Share Capital HRK '000	Own Shares HRK '000	Reserve for Own Shares HRK '000	Other Reserves HRK '000	Fair Value Reserve HRK '000	Revaluation Reserve HRK '000	Retained Earnings HRK '000	Total HRK '000
Balance at 1 January 2021	**1,214,775**	**(477)**	**4,477**	**606,971**	**242,231**	**22,744**	**382,384**	**2,473,104**
Revaluation Reserve	-	-	-	-	-	6,411	-	**6,411**
Equity instruments in assets carried at other comprehensive income - net change in fair value	-	-	-	-	(1,553)	-	-	**(1,553)**
Changes in Fair Value of Financial Assets at fair Value through Other Comprehensive Income	-	-	-	-	(31,302)	-	-	**(31,302)**
Change in actuarial gains/losses	-	-	-	-	(3,219)	-	-	**(3,219)**
Deferred Tax	-	-	-	-	6,493	(1,612)	-	**4,882**
Total other comprehensive income	**-**	**-**	**-**	**-**	**(29,580)**	**4,799**	**-**	**(24,781)**
Total Comprehensive Income for 2021	**-**	**-**	**-**	**-**	**(29,580)**	**4,799**	**202,107**	**177,326**
Distribution of 2020 Profit								
- Transfer to Statutory Reserves and other reserves	-	-	-	91,031	-	-	(91,031)	**-**
Balance at 31 December 2021	**1,214,775**	**(477)**	**4,477**	**698,002**	**212,651**	**27,543**	**493,459**	**2,650,430**
Balance at 1 January 2022	**1,214,775**	**(477)**	**4,477**	**698,002**	**212,651**	**27,543**	**493,459**	**2,650,430**
Revaluation Reserve	-	-	-	-	-	12,387	-	**12,387**
Equity instruments in assets carried at other comprehensive income - net change in fair value	-	-	-	-	929	-	-	**929**
Changes in Fair Value of Financial Assets at fair Value through Other Comprehensive Income	-	-	-	-	(232,538)	-	-	**(232,538)**
Deferred Tax	-	-	-	-	41,690	(2,230)		**39,460**
Total other comprehensive income	**-**	**-**	**-**	**-**	**(189,919)**	**10,157**	**-**	**(179,762)**
Net profit for period	**-**	**-**	**-**	**-**			**132,606**	**132,606**
Total Comprehensive Income for 2022	**-**	**-**	**-**	**-**	**(189,919)**	**10,157**	**132,606**	**(47,156)**
Treasury shares purchase	-	(205)	-	-	-	-	-	**(205)**
Share-based payments	-	682	-	-	-	-	-	**682**
Other changes	-	-	-	-	-	-	10,684	**10,684**
Distribution of 2021 Profit								
- Transfer to Statutory Reserves and other reserves	-	-	-	(40,499)	-	-	40,499	**-**
Balance as at 31 December 2021	**1,214,775**	**-**	**4,477**	**657,502**	**22,731**	**37,701**	**677,249**	**2,614,435**

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

Consolidated Cash Flow Statement
as at December 31, 2022

HRK '000	Notes	1.1. – 31.12.2022	1.1. – 31.12.2021
Cash Flows from Operating Activities			
Profit/ (Loss) Before Taxation		981,493	246,445
Adjusted by:			
- Depreciation and Amortization	14,15,16	98,176	67,823
- Foreign Exchange (Gains)/Losses	33	(60,971)	7,593
- Net Impairment Losses on Loans and Receivables from Customers and Other assets		185,935	65,806
- (gains) / losses on provisions for liabilities and charges	23	59,953	307
- Net change on Financial Assets at Fair Value	31	8,714	(83,170)
- Net interest income		(731,880)	(524,111)
- Dividend income		(1,164)	(2,044)
- Gain on bargain purchase		(1,018,765)	-
- Other		13	-
Changes in Operating Assets and Liabilities			
Loans and Receivables from Banks		(24,215)	(4,727)
Mandatory CNB Reserves		1,760,853	(107,285)
Financial Assets at Fair Value through Profit and Loss		777,805	172,074
Financial Assets at amortized cost		(2,572,426)	1,534
Financial Assets at fair value through other comprehensive income		1,037,675	(368,925)
Loans and Receivables from Customers		(1,796,697)	441,654
Other assets		296,881	(19,452)
Deposits from Banks		(2,995,057)	(69,619)
Customer Deposits		6,609,932	2,030,484
Other Liabilities		(3,026)	236,376
Interest received		672,563	484,505
Interest paid		(54,170)	(30,807)
Net Cash (Outflow)/ Inflow from Operating Activities Before Tax		**3,231,622**	**2,544,461**
Income Tax Paid		2,487	2,077
Net Cash (Outflow)/ Inflow from Operating Activities		**3,234,109**	**2,546,538**
Cash Flows from Investing Activities			
Net purchase of Property, Equipment and Intangible Assets		(309,156)	(47,114)
Net inflow from the NHB acquisition		1,095,348	-
Net outflow from the Pronam acquisition		(18,810)	-
Dividends Received		1,164	2,044
Net Cash flow from Investing Activities		**768,546**	**(45,070)**
Cash Flows from Financing Activities			
Increase in Borrowings		1,512,815	373,212
Repayments of Borrowings		(651,488)	(430,491)
Lease repayments under IFRS 16		-	(24,419)
Other income form financing activities		(63,975)	-
Net Cash flow from Financing Activities		**797,352**	**(81,698)**
Effect of Foreign Exchange Differences on Cash and Cash Equivalents		-	-
Net Increase in Cash and Cash Equivalents		**4,800,007**	**2,419,770**
Cash and Cash Equivalents at the Beginning of the Year	39	**6,501,351**	**4,081,581**
Cash and Cash Equivalents at the End of the Year	39	**11,301,358**	**6,501,351**

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

	Notes	2022 HRK '000	2021 HRK '000
Cash Flows from Operating Activities			
Profit/ (Loss) Before Taxation		158,430	245,675
Adjusted by:			
- Depreciation and Amortization	14,15,16	70,057	67,020
- Foreign Exchange (Gains)/Losses	33	(58,121)	7,593
- Net Impairment Losses on Loans and Receivables from Customers and Other assets		(31,067)	65,804
- (gains) / losses on provisions for liabilities and charges	23	50,411	307
- Net change on Financial Assets at Fair Value	31	8,963	(83,170)
- Net interest income		(532,065)	(524,111)
- Dividend income		(2,549)	(2,044)
Changes in Operating Assets and Liabilities			
Loans and Receivables from Banks		(564,647)	(4,727)
Mandatory CNB Reserves		1,326,442	(107,285)
Financial Assets at Fair Value through Profit and Loss		202,579	172,074
Financial Assets at amortized cost		(2,529,332)	1,534
Financial Assets at fair value through other comprehensive income		1,545,344	(368,925)
Loans and Receivables from Customers		(1,548,783)	441,654
Other assets		18,949	(19,526)
Deposits from Banks		186,851	(69,619)
Customer Deposits		5,910,533	2,032,140
Other Liabilities		55,759	236,166
Interest charged		453,457	484,505
Interest paid		(26,617)	(30,807)
Net Cash (Outflow)/ Inflow from Operating Activities Before Tax		**4,694,592**	**2,544,258**
Income Tax Paid		(42,340)	2,098
Net Cash (Outflow)/ Inflow from Operating Activities		**4,652,252**	**2,546,356**
Cash Flows from Investing Activities			
Investment in subsidiaries		(91,344)	-
Net purchase of Property, Equipment and Intangible Assets		(73,801)	(47,009)
Dividends Received		2,549	2,044
Net Cash flow from Investing Activities		**(162,596)**	**(44,965)**
Cash Flows from Financing Activities			
Increase in Borrowings		1,045,946	373,287
Repayments of Borrowings		(651,488)	(430,567)
Lease repayments under IFRS 16		(18,321)	(24,343)
Net Cash flow from Financing Activities		**376,137**	**(81,622)**
Effect of Foreign Exchange Differences on Cash and Cash Equivalents		-	-
Net Increase in Cash and Cash Equivalents		**4,865,793**	**2,419,770**
Cash and Cash Equivalents at the Beginning of the Year	39	**6,501,311**	**4,081,541**
Cash and Cash Equivalents at the End of the Year	39	**11,367,104**	**6,501,311**

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

1. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

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

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

	Industry	State	Ownership as of 31 December 2022	Ownership as of 31 December 2021
HPB Invest Ltd.	Investment Funds Management	Croatia	100%	100%
HPB-nekretnine Ltd.	Real Estate Agency and Construction	Croatia	100%	100%
Nova hrvatska banka p.l.c.	Financial services	Croatia	100%	-
Pronam Nekretnine Ltd.	Real Estate Agency and Construction	Croatia	100%	-

An overview of investments in HPB subsidiaries is presented in note 13, while the consolidation basis is described in note 1, item d).

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

These financial statements were approved by the Management Board on March 30, 2023 for submission to the Supervisory Board.

The main accounting policies applied in the preparation of these financial statements are presented in following notes. Where accounting policies coincide with the accounting principles of International Financial Reporting Standards adopted in European Union, in the description of the Group's accounting policies, individual standards may be referred to, and unless otherwise stated, these are the Standards that were in effect at 31 December 2022.

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

a) Statement of Compliance

These financial reports are prepared in accordance with the statutory accounting regulations for credit institutions in the Republic of Croatia. Legal accounting regulations for banks in the Republic of Croatia is based on International financial reporting standard ("IFRS") and special regulations for banks adopted by Croatian National Bank ("the CNB".

In these financial statements as at 31 December 2022 balances are not materially incompliant with balances in accordance with IFRS.

The principal differences between the accounting regulations of the CNB and recognition and measurement requirements of International Financial Reporting Standards are as follows:

- Suspended interest represents already accrued unpaid interest on asset for which individual impairment has been recognized. For the part of the exposure for which the passage of time of default is longer than two years the Bank and the Group carry out the full impairment of accrued unpaid interest through profit and loss, suspend the following accrual in the statement of financial position and present the interest in the off-balance up until the customer makes the payment in cash. The stated is not in accordance with the IFRS 9 „Financial instruments" which requires the interest income from impaired financial assets to be accrued using the method of the effective interest rate.
- In line with CNB Decision on classification of exposures into risk stages and the manner in which credit losses are determined which was put into force at 1 January 2018 („Decision on exposure classification"), CNB prescribes minimum provision for impairment loss for certain exposures for which impairment has been specifically recognized, that may be different from an impairment loss calculated in accordance with IFRS.
- In line with the Decision on exposure classification the CNB prescribes the minimum impairment factors/haircuts and collection deadlines for each collateral type for purposes of estimating future cash flows on the basis of collection through collateral. The stated future cash flows can be different from the future cash flows calculated in accordance with the IFRS.
- In line with the CNB's Decision on Provisions for Court Cases against the Credit Institution of March 31, 2010 there are minimum requirements for the provisions for court cases the credit institution is obliged to fulfill. In line with the Decision a credit institution must diversify court cases into risk categories depending on the loss probability and form provisions accordingly. However, in certain cases required reserves may differentiate from the ones calculated in accordance with the IFRS.

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

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

b) Basis of preparation

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

Financial reports are prepared for the reporting period from 1 January to 31 December 2021.

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

In preparing the financial reports, management is required to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expense for the period.

Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under current circumstances, the results of which form the basis of making the judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

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

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

c) New Standards, Interpretation and Changes of Published Standards

Adoption of New or Revised Standards and Interpretations

The following amended standards became effective from 1 January 2022, they have been endorsed by the EU, but did not have a material impact on the Bank and Group:

- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).
- Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021).

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2023 or later, which have been endorsed by the EU and which the Bank and Group has not early adopted.

- IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).

1. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS (continued)
   c) New Standards, Interpretation and Changes of Published Standards (continued)

- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).
- Transition option to insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023).

The Bank is assessing the impact of the standards and unless otherwise described above, the new standards and interpretations are not expected to affect significantly the separate and consolidated Bank and Group financial statements.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2023 or later, which have not been endorsed by the EU and which the Bank and Group has not early adopted.

- IFRS 14, Regulatory Deferral Accounts (issued on 30 January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the separate and consolidated Bank and Group financial statements.

d) Functional and Presentation Currency

The Bank's and Group financial reports are prepared and presented in Croatian Kuna (HRK), which is the functional and reporting currency of the Bank and Group. Amounts are rounded to the nearest thousand (unless otherwise stated),

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

In 2022, the Bank reclassified certain positions of financial statements related to historical periods. In the statement of comprehensive income, the item Changes in actuarial gains/losses was transferred from Items not transferred to the profit and loss account to Items transferred to the profit and loss account.

The item Investment in other property was reclassified from note 16 Intangible assets to note 14 Tangible assets in the amount of HRK 28,902 thousand. Other interest income is reported separately from interest income at the effective rate in the amount of HRK 6,665 thousand, and other interest expenses are reported separately from interest expenses in the amount of HRK 62 thousand.

f) The basis for consolidation

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

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

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

g) Foreign Currencies

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

The fair value of financial assets through other comprehensive income denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

The official middle exchange rate as of December 31, 2022 was:

7.534500 = 1 EUR; 7.064035 = 1 USD; 7.651569 = 1 CHF

The official middle exchange rate as of December 31, 2021 was:

7.517174 = 1 EUR; 6.643548 = 1 USD; 7.248263 = 1 CHF

2. RISK MANAGEMENT

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

An integrated system of risk management is established at the Bank and Group level by introducing a set of policies, procedures and manuals, determining the limits of risk levels acceptable to the Bank and monitoring their implementation. The limits are set with respect to the amount of regulatory capital and are applied to all types of risk. Additionally, the Bank sets limits for annual potential losses measured by Value-at-Risk techniques for its market risk exposure.

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

2.1. Credit risk

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

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

At reporting date, the Bank's credit risk exposure to derivative financial instruments classified as at fair value through profit or loss is presented by the negative fair value of these instruments, as recorded in the report of financial position. Notional amounts disclosed in the notes to the financial reports do not represent the amounts to be exchanged by the parties in derivative transactions and do not measure the Bank's exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The Bank is exposed to credit risk primarily through loans and receivables from customers. The amount of credit exposure in this regard, as well as held to maturity debt securities recognized at amortized cost, is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to the credit risk through off-balance sheet items, i.e. through commitments arising from unused facilities and guarantees issued, as disclosed in Note 39.

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

Assessment of the individual credit risk exposure comprises the following:

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

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

2.1.1. Credit risk rating

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

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

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

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

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

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

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

HRK '000	Stage 1 (12-month credit losses)	Stage 2 (lifetime credit losses)	Stage 3 (lifetime credit losses)	Total
Internal Rating				
1	-	-	-	**-**
2	3	-	-	**3**
3	3,509,724	113,657	-	**3,623,381**
4	162,603	20	-	**162,623**
5	863,514	28,948	-	**892,462**
6	442,444	11,608	-	**454,052**
7	732,562	166,618	-	**899,180**
8	685,523	363,736	-	**1,049,259**
9	366,763	165,292	-	**532,055**
10	100,504	142,521	-	**243,025**
11	46,770	11,366	-	**58,136**
12	-	3,145	-	**3,145**
DEFAULT	-	-	864,301	**864,301**
Gross exposure	**6,910,410**	**1,006,911**	**864,301**	**8,781,622**
Value adjustment	75,618	47,225	636,991	**759,834**
Net exposure	**6,834,792**	**959,686**	**227,310**	**8,021,788**

Quality of the loan portfolio at amortized cost in corporate segment as of December 31, 2021:

HRK '000	Stage 1 (12-month credit losses)	Stage 2 (lifetime credit losses)	Stage 3 (lifetime credit losses)	Total
Internal Rating				
1	-	-	-	**-**
2	2	-	-	**2**
3	3,388,057	20,428	-	**3,408,485**
4	74,811	11,345	-	**86,156**
5	373485	70	-	**373,555**
6	388,059	14,339	-	**402,398**
7	316,902	125,483	-	**442,385**
8	336,623	140,281	-	**476,904**
9	160,685	354,128	-	**514,813**
10	161,027	30,765	-	**191,792**
11	30,682	131,207	-	**161,889**
12	7,221	67,745	-	**74,966**
DEFAULT	-	-	1,340,570	**1,340,570**
Gross exposure	**5,237,554**	**895,791**	**1,340,570**	**7,473,915**
Value adjustment	41,939	69,324	720,562	**831,825**
Net exposure	**5,195,615**	**826,467**	**620,008**	**6,642,090**

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

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

HRK '000	Stage 1 (12-month credit losses)	Stage 2 (lifetime credit losses)	Stage 3 (lifetime credit losses)	Total
Internal Rating				
1	470,501	32,157	-	**502,658**
2	2,778,685	41,407	-	**2,820,092**
3	820,868	24,507	-	**845,375**
4	1,094,267	75,296	-	**1,169,563**
5	615,461	29,104	-	**644,565**
6	455,005	48,619	-	**503,624**
7	72,912	53,041	-	**125,953**
8	47,518	45,613	-	**93,131**
9	106,236	120,752	-	**226,988**
10	311,334	343,033	-	**654,367**
11	81,252	112,275	-	**193,527**
12	-	66,548	-	**66,548**
DEFAULT	-	-	792,167	**792,167**
Gross exposure	**6,854,039**	**992,352**	**792,167**	**8,638,558**
Value adjustment	44,139	85,693	656,801	**786,633**
Net exposure	**6,809,900**	**906,659**	**135,366**	**7,851,925**

Quality of the loan portfolio at amortized cost in retail segment as of December 31, 2021:

HRK '000	Stage 1 (12-month credit losses)	Stage 2 (lifetime credit losses)	Stage 3 (lifetime credit losses)	Total
Internal Rating				
1	1,569,153	29,336	-	**1,598,489**
2	1,227,207	22,837	-	**1,250,044**
3	956,780	14,837	-	**971,617**
4	434,390	12,645	-	**447,035**
5	813,369	37,245	-	**850,614**
6	808,270	24,798	-	**833,068**
7	174,327	8,424	-	**182,751**
8	115,997	11,442	-	**127,439**
9	139,773	18,761	-	**158,534**
10	193,413	36,881	-	**230,294**
11	584,206	110,742	-	**694,948**
12	129,088	53,814	-	**182,902**
DEFAULT	-	-	803,213	**803,213**
Gross exposure	**7,145,973**	**381,762**	**803,213**	**8,330,948**
Value adjustment	94,146	39,363	587,729	**721,238**
Net exposure	**7,051,827**	**342,399**	**215,484**	**7,609,710**

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

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

Group

%	Loans and Receivables from Customers	Impairment Allowance	Loans and Receivables from Banks	Impairment Allowance	Financial Assets valued at Amortized cost	Impairment Allowance	Balances with the CNB	Impairment Allowance	Fees Receivables	Impairment Allowance
2022										
Stage 1	79.89	8.81	99.77	71.69	98.65	98.87	100,00	-	53.95	2.64
Stage 2	11.57	11.09	-	-	1.35	1.13	-	-	4.78	-
Stage 3	8.54	80.10	0.23	28.31	-	-	-	-	41.27	97.36

%	Loans and Receivables from Customers	Impairment Allowance	Loans and Receivables from Banks	Impairment Allowance	Financial Assets valued at Amortized cost	Impairment Allowance	Balances with the CNB	Impairment Allowance	Fees Receivables	Impairment Allowance
2021										
Stage 1	78.35	8.76	99.83	66.76	-	-	100.00	-	51.52	1.86
Stage 2	8.08	7.00	-	-	100.00	100.00	-	-	2.92	-
Stage 3	13.56	84.24	0.17	33.24	-	-	-	-	45.56	98.14

Bank

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

%	Loans and Receivables from Customers	Impairment Allowance	Loans and Receivables from Banks	Impairment Allowance	Financial Assets valued at Amortized cost	Impairment Allowance	Balances with the CNB	Impairment Allowance	Fees Receivables	Impairment Allowance
2021										
Stage 1	78.35	8.76	99.83	66.76	-	-	100.00	-	48.90	1.83
Stage 2	8.08	7.00	-	-	100.00	100.00	-	-	3.08	-
Stage 3	13.56	84.24	0.17	33.24	-	-	-	-	48.02	98.17

Forward-looking information (FLI)

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

Bank's sources of forward-looking information are publications and research papers published by relevant and respected institutions such as central banks, various national entities, universities, etc. The latest calculation of the mentioned approach was applied in March 2022, and its impact on the Bank's provision for loan losses was based on the official publications of Croatian National Bank, namely "Macroeconomic Trends and Forecasts" and "Financial Stability".

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

- Change in the rate of real GDP
- Average inflation rate
- Unemployment rate
- Change in investment rate
- Change in the rate of import of goods and services

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

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

- Negative scenario: 5%
- Neutral scenario: 60%
- Positive scenario: 35%

In addition, the Management Board used its right to, when deemed appropriate, increase the final performance (the ratio of the average PD portfolio after the application of the scenario to the average PD portfolio before the application of the scenario), stating macroeconomic uncertainties arising from the invasion of Ukraine and fears of increased energy costs and rising inflation.

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

Maximum Exposure to Credit Risk before Consideration of Collateral

The table below shows the maximum exposure of the Group and Bank to credit risk as at December 31, 2022 and December 31, 2021, not considering the collateral, if any. The exposures presented below are net of impairment losses and provisions. odnosno rezerviranja,

Maximum Exposure		**Group**		**Bank**	
	Note	**2022 HRK '000**	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Giro Account with the CNB and Other Banks	5	11,091,437	6,192,555	9,919,462	6,192,515
Mandatory Reserve with the CNB	6	-	1,326,442	-	1,326,442
Loans to and Receivables from Banks	7	211,771	289,837	1,994,752	289,837
Investments measured at Fair Value through profit and loss account	8	404,993	508,361	315,439	508,361
Investments measured at Fair Value through Other Comprehensive Income	9	-	4,525,133	-	4,525,133
Investments measured at amortized cost	10	6,001,779	453	5,447,266	453
Loans and Receivables from Customers	11	23,069,273	14,251,800	15,873,713	14,251,800
Fees Receivable	18	13,680	11,840	13,001	10,560
Off-Balance Sheet Exposure	40	**5,255,574**	**2,676,993**	**6,236,827**	**2,676,993**
Undisbursed Lending Commitments		3,029,658	2,176,448	-	2,176,448
Guarantees		2,220,637	490,658	2,648,235	490,658
Other Contingent Liabilities		5,279	9,888	3,588,592	9,888
Total Credit Exposure		**46,048,507**	**29,783,414**	**39,800,460**	**29,782,094**

Exposure to the state and the CNB is presented in Note 38.

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

2.1.2. Assets Exposed to Credit Risk

Group **2022**	**Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets Valued at Amortized cost**	**Gyro account with the CNB and banks**	**Fees Receivable**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Stage 1	20,039,891	213,038	5,930,548	11,091,437	12,400
Stage 2	2,903,341	-	81,046	-	1,099
Stage 3	2,142,259	500	-	-	9,485
Total Gross	**25,085,491**	**213,538**	**6,011,595**	**11,091,437**	**22,984**
Stage 3 Provisions	(1,614,926)	(500)	-	-	(9,058)
Stage 1&2 Provisions	(401,292)	(1,266)	(9,816)	-	(246)
Total expected losses	**(2,016,218)**	**(1,766)**	**(9,816)**	**-**	**(9,304)**
Total	**23,069,273**	**211,771**	**6,001,779**	**11,091,437**	**13,680**

Purchased or issued credit impaired financial assets (POCI) for the Group and the Bank in 2022 for the Group and the Bank amounts to HRK 36,957 thousand (2021: 153,660).

2021	**Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets Valued at Amortized cost**	**Gyro account with the CNB and banks**	**Mandatory reserve with CNB**	**Fees Receivable**
	HRK '000	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**	**HRK '000**
Stage 1	12,383,527	290,841	-	6,192,555	1,326,442	11,056
Stage 2	1,277,553	-	459	-	-	627
Stage 3	2,143,783	500	-	-	-	9,776
Total Gross	**15,804,864**	**291,341**	**459**	**6,192,555**	**1,326,442**	**21,459**
Stage 3 Provisions	(1,308,291)	(500)	-	-	-	(9,440)
Stage 1&2 Provisions	(244,773)	(1,004)	(5)	-	-	(179)
Total expected losses	**(1,553,064)**	**(1,504)**	**(5)**	**-**	**-**	**(9,619)**
Total	**14,251,800**	**289,837**	**453**	**6,192,555**	**1,326,442**	**11,840**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.2. Assets Exposed to Credit Risk (continued)

Bank

2022	Loans and Receivables from Customers	Loans to and Receivables from Banks	Financial Assets Valued at Amortized cost	Gyro account with the CNB and banks	Fees Receivable
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Stage 1	13,764,449	2,004,885	5,375,409	9,919,462	11,721
Stage 2	1,999,263	-	81,046	-	1,099
Stage 3	1,656,468	500	-	-	9,485
Total Gross	**17,420,180**	**2,005,385**	**5,456,455**	**9,919,462**	**22,305**
Stage 3 Provisions	(1,293,792)	(500)	-	-	(9,058)
Stage 1&2 Provisions	(252,675)	(10,133)	(9,190)	-	(246)
Total expected losses	**(1,546,467)**	**(10,633)**	**(9,190)**	-	**(9,304)**
Total	**15,873,713**	**1,994,752**	**5,447,265**	**9,919,462**	**13,001**

Purchased or issued credit impaired financial assets (POCI) for the Group and the Bank in 2022 for the Group and the Bank amounts to HRK 36,957 thousand (2021: HRK 153,660 thousand).

2021	Loans and Receivables from Customers	Loans to and Receivables from Banks	Financial Assets Valued at Amortized cost	Gyro account with the CNB and banks	Mandatory reserve with CNB	Fees Receivable
	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000	HRK '000
Stage 1	12,383,527	290,841	-	6,192,515	1,326,442	9,955
Stage 2	1,277,553	-	459	-	-	627
Stage 3	2,143,783	500	-	-	-	9,776
Total Gross	**15,804,863**	**291,341**	**459**	**6,192,515**	**1,326,442**	**20,358**
Stage 3 Provisions	(1,308,291)	(500)	-	-	-	(9,619)
Stage 1&2 Provisions	(244,773)	(1,004)	(5)	-	-	(179)
Total expected losses	**(1,553,064)**	**(1,504)**	**(5)**	**-**	**-**	**(9,798)**
Total	**14,251,800**	**289,837**	**453**	**6,192,515**	**1,326,442**	**10,560**

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

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

Collateral value is reviewed along the lines of internal policies and procedures, and in accordance with good business practice, current market trends as well as the Decision on Classifying Placements and Off-Balance Sheet Liabilities of Credit Institutions. The value of residential real estate is monitored on an annual basis through an index for intertemporal equalization of the value of residential real estate in accordance with the Methodology for monitoring the value of residential real estate.

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

		Group		Bank	
Asset Type	**Collateral Type**	**2022 HRK '000**	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Loans to and Receivables from Customers	Deposits	102,450	76,668	52,307	76,668
	Guarantees and Warranties of the Republic of Croatia	3,432,576	2,288,253	3,322,680	2,288,253
	Real Estate –Non-Business Purposes	5,332,991	4,031,315	4,198,349	4,031,315
	Real Estate – Business Purposes	2,212,614	1,534,826	635,542	1,534,826
	Movable Property (equipment, supplies, vehicles, ships etc.)	203,022	201,549	178,300	201,549
	Equity Investments (Single-Stocks and Funds)	91,306	77,352	91,306	77,352
	Land	408,706	252,880	408,706	252,880
Total		**11,783,665**	**8,462,843**	**8,887,191**	**8,462,843**

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

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

Group **u HRK '000**	**Total**	**Undue Exposure to Credit Risk**	**Days Past Due 1-30**	**Days Past Due 31-60**	**Days Past Due 61-90**	**Days Past Due 91-180**	**Days Past Due 180+**
31 December 2022							
Government	3,551,088	3,548,309	2,779	-	-	-	-
Other Corporate Clients	8,094,524	7,375,435	32,957	6,517	8,187	7,837	663,592
Retail	13,439,880	12,689,689	21,377	12,841	12,587	33,867	669,520
Total	**25,085,492**	**23,613,432**	**57,112**	**19,358**	**20,774**	**41,704**	**1,333,111**
31 December 2021							
Government	3,432,439	3,428,402	4,038	-	-	-	-
Other Corporate Clients	3,948,535	3,087,858	188,064	131	-	1,498	670,984
Retail	8,423,889	7,823,825	7,185	2,444	2,369	7,949	580,118
Total	**15,804,864**	**14,340,086**	**199,287**	**2,574**	**2,369**	**9,447**	**1,251,101**

Bank **u HRK '000**	**Total**	**Undue Exposure to Credit Risk**	**Days Past Due 1-30**	**Days Past Due 31-60**	**Days Past Due 61-90**	**Days Past Due 91-180**	**Days Past Due 180+**
31 December 2022							
Government	3,504,984	3,502,205	2,779	-	-	-	-
Other Corporate Clients	5,182,223	4,521,967	31,525	689	963	1,729	625,351
Retail	8,732,975	8,098,861	10,544	8,564	9,453	20,089	585,465
Total	**17,420,182**	**16,123,033**	**44,847**	**9,252**	**10,416**	**21,817**	**1,210,816**
31 December 2021							
Government	3,432,439	3,428,402	4,038	-	-	-	-
Other Corporate Clients	3,948,535	3,087,858	188,064	131	-	1,498	670,984
Retail	8,423,889	7,823,825	7,185	2,444	2,369	7,949	580,118
Total	**15,804,864**	**14,340,086**	**199,287**	**2,574**	**2,369**	**9,447**	**1,251,101**

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

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

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

Group 2022, HRK '000	Government Units	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets valued at Amortized cost**	**Gyro account with the CNB and banks**	**Fees Receivable**
Gross Placements	**1,982,415**	**7,217,868**	**4,393,345**	**73,107**	**142,730**	**6,230,426**	**20,039,891**	**213,038**	**5,930,548**	**9,843,932**	**12,400**
Expected Portfolio Based Losses	(17,574)	(63,985)	(38,946)	(648)	(1,265)	(55,232)	**(177,650)**	(1,266)	**(9,706)**	-	(246)
Net Placements	**1,964,841**	**7,153,883**	**4,354,399**	**72,459**	**141,465**	**6,175,194**	**19,862,241**	**211,771**	**5,920,843**	**9,843,932**	**12,154**
Collateral Value	61	5,030,843	3,719,031	65,255	534	1,050,612	**9,866,336**	**-**	-	-	-
Collateral Coverage (%)	**-**	**70.32**	**85.41**	**90.06**	**0.38**	**17.01**	**49.67**	**-**	**-**	**-**	**-**

Group 2021 HRK '000	Government Units	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Gyro account with the CNB and Banks**	**Mandatory reserve with CNB**	**Fees Receivable**
Gross Placements	**3,376,744**	**1,844,432**	**4,090,787**	**44,432**	**106,088**	**2,921,044**	**12,383,527**	**290,841**	**6,192,515**	**1,326,442**	**11,056**
Expected Portfolio Based Losses	(37,108)	(20,269)	(44,955)	(488)	(1,166)	(32,100)	**(136,085)**	(1,004)	-	-	(179)
Net Placements	**3,339,636**	**1,824,163**	**4,045,832**	**43,944**	**104,922**	**2,888,944**	**12,247,442**	**289,837**	**6,192,515**	**1,326,442**	**10,877**
Collateral Value	1,346,725	1,328,347	3,695,384	41,963	88	150,146	**6,562,653**	-	-	-	-
Collateral Coverage (%)	**40.33**	**72.82**	**91.34**	**95.49**	**0.08**	**5.20**	**53.58**	**-**	**-**	**-**	**-**

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

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

Bank **2022** **HRK '000**	Government Units	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Financial Assets valued at Amortized cost**	**Gyro account with the CNB and banks**	**Fees Receivable**
Gross Placements	**1,936,453**	**5,007,300**	**4,331,298**	**65,458**	**95,129**	**2,328,811**	**13,764,449**	**2,004,885**	**5,375,409**	**9.919.462**	**11,721**
Expected Portfolio Based Losses	(16,852)	(43,564)	(37,683)	(569)	(828)	(20,261)	**(119,757)**	(10,133)	(9,080)	-	(246)
Net Placements	**1,919,605**	**4,963,736**	**4,293,615**	**64,889**	**94,301**	**2,308,550**	**13,644,692**	**1,994,752**	**5,366,330**	**9.919.462**	**11,475**
Collateral Value	61	3,572,268	3,658,037	57,605	407	79,767	**7,368,145**	-	-	-	-
Collateral Coverage (%)	**-**	**71.97**	**85.2**	**88.78**	**-**	**3.46**	**54.00**	**-**	**-**	**-**	**-**

Bank **2021** **HRK '000**	Government Units	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total Loans and Receivables from Customers**	**Loans to and Receivables from Banks**	**Gyro account with the CNB and banks**	**Mandatory reserve with CNB**	**Fees Receivable**
Gross Placements	**3,376,744**	**1,844,432**	**4,090,787**	**44,432**	**106,088**	**2,921,044**	**12,383,527**	**290,841**	**6.192.515**	**1.326.442**	**9,955**
Expected Portfolio Based Losses	(37,108)	(20,269)	(44,955)	(488)	(1,166)	(32,100)	**(136,085)**	(1,004)	-	-	(179)
Net Placements	**3,339,636**	**1,824,163**	**4,045,832**	**43,944**	**104,922**	**2,888,944**	**12,247,442**	**289,837**	**6.192.515**	**1.326.442**	**9,776**
Collateral Value	1,346,725	1,328,347	3,695,384	41,963	88	150,146	**6,562,653**	-	-	-	-
Collateral Coverage (%)	**40.33**	**72.82**	**91.34**	**95.49**	**-**	**5.20**	**53.58**	**-**	**-**	**-**	**-**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.2. Assets Exposed to Credit Risk (continued)

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

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

Group 2022 HRK '000	Government units	Companies	Housing loans	Mortgage loans	Credit card overdrafts	Other loans	Total	Financial assets at amortized cost	Fee receivables
Gross Amount	**11,533**	**1,294,609**	**424,559**	**9,893**	**34,062**	**1,128,685**	**2,903,341**	**81,046**	**1,099**
Total Portfolio Based Losses	(888)	(99,723)	(32,703)	(762)	(2,624)	(86,942)	**(223,642)**	(111)	-
Net Amount	**10,645**	**1,194,886**	**391,856**	**9,131**	**31,438**	**1,041,743**	**2,679,699**	**80,936**	**1,099**
Collateral Value	5	813,622	377,291	8,076	20	149,999	**1,349,013**	-	-
Collateral Coverage (%)	**0.05**	**68.09**	**96.28**	**88.45**	**0.06**	**14.40**	**50.34**	**-**	**-**

Group 2021 HRK '000	Government units	Companies	Housing loans	Mortgage loans	Credit card overdrafts	Other loans	Total	Financial assets at amortized cost	Fee receivables
Gross Amount	**5,931**	**905,760**	**117,085**	**3,267**	**8,323**	**237,187**	**1,277,553**	**459**	**627**
Total Portfolio Based Losses	(505)	(77,057)	(9,961)	(278)	(708)	(20,179)	**(108,687)**	(5)	-
Net Amount	**5,426**	**828,703**	**107,124**	**2,989**	**7,615**	**217,008**	**1,168,865**	**453**	**627**
Collateral Value	-	718,811	114,152	3,238	-	21,569	**857,770**	-	-
Collateral Coverage (%)	**-**	**86.74**	**106.56**	**108.33**	**-**	**9.94**	**73.38**	**-**	**-**

Bank 2022 HRK '000	Government units	Companies	Housing loans	Mortgage loans	Credit card overdrafts	Other loans	Total	Financial assets at amortized cost	Fee receivables
Gross Amount	**11,777**	**1,009,041**	**417,463**	**8,562**	**23,248**	**529,172**	**1,999,263**	**81,046**	**1,099**
Total Portfolio Based Losses	(783)	(67,085)	(27,754)	(569)	(1,546)	(35,181)	**(132,918)**	(111)	
Net Amount	**10,994**	**941,956**	**389,709**	**7,993**	**21,702**	**493,991**	**1,866,345**	**80,936**	**1,099**
Collateral Value	5	625,342	370,381	6,744	5	21,478	**1,023,955**	-	-
Collateral Coverage (%)	**0.05**	**66.39**	**95.04**	**84.38**	**-**	**4.35**	**54.86**	**-**	**-**

Bank 2021 HRK '000	Government units	Companies	Housing loans	Mortgage loans	Credit card overdrafts	Other loans	Total	Financial assets at amortized cost	Fee receivables
Gross Amount	**5,931**	**905,760**	**117,085**	**3,267**	**8,323**	**237,187**	**1,277,553**	**459**	**627**
Total Portfolio Based Losses	(505)	(77,057)	(9,961)	(278)	(708)	(20,179)	**(108,687)**	(5)	-
Net Amount	**5,426**	**828,703**	**107,124**	**2,989**	**7,615**	**217,008**	**1,168,865**	**453**	**627**
Collateral Value	-	718,811	114,152	3,238	-	21,569	**857,770**	-	-
Collateral Coverage (%)	**-**	**86.74**	**106.56**	**108.33**	**-**	**9.94**	**73.38**	**-**	**-**

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

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

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

Group
2022
HRK '000

	Loans to Customers							
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total**	**Loans to and Receivables from Banks**	**Fees Receivable**
Gross Amount	**942,651**	**60,016**	**76,359**	**30,840**	**1,032,393**	**2,142,259**	**500**	**9.485**
Total Expected Losses	(686,522)	(18,209)	(70,840)	(20,387)	(818,968)	**(1,614,926)**	(500)	(9,058)
Net Amount	**256,129**	**41,807**	**5,519**	**10,453**	**213,425**	**527,333**	**-**	**427**
Collateral Value	452,972	45,569	17,284	32	52,460	**568,317**	-	-
Collateral Coverage (%)	**176.85**	**109.00**	**313.17**	**0.31**	**24.58**	**107.77**	**-**	**-**

Group
2021
HRK '000

	Loans to Customers							
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total**	**Loans to and Receivables from Banks**	**Fees Receivable**
Gross Amount	**1,346,277**	**72,122**	**79,343**	**20,948**	**625,094**	**2,143,784**	**500**	**9,776**
Total Expected Losses	(724,156)	(18,258)	(71,481)	(15,806)	(478,590)	**(1,308,291)**	(500)	(9,440)
Net Amount	**622,121**	**53,864**	**7,862**	**5,142**	**146,504**	**835,493**	**-**	**336**
Collateral Value	908,143	65,943	34,131	-	34,203	**1,042,420**	-	-
Collateral Coverage (%)	**145.98**	**122.42**	**434.13**	**-**	**23.35**	**124.77**	**-**	**-**

2. RISK MANAGEMENT (continued)
2.1. Credit risk (continued)
2.1.2. Assets Exposed to Credit Risk (continued)
c) Stage 3 – default status (risk categories B and C) (continued)

Bank
2022
HRK '000

	Loans to Customers							
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total**	**Loans to and Receivables from Banks**	**Fees Receivable**
Gross Amount	**889,308**	**56,507**	**75,483**	**21,229**	**613,942**	**1,656,469**	**500**	**9,485**
Total Expected Losses	(654,685)	(16,579)	(70,578)	(18,134)	(533,816)	**(1,293,792)**	(500)	(9,058)
Net Amount	**234,623**	**39,928**	**4,905**	**3,095**	**80,126**	**362,677**	**-**	**427**
Collateral Value	421,532	42,704	16,408	-	14,447	**495,091**	-	-
Collateral Coverage (%)	**179.66**	**106.95**	**334.52**	**-**	**18.03**	**136.51**	**-**	**-**

Bank
2021
HRK '000

	Loans to Customers							
	Companies	Housing Loans	Mortgage Loans	Credit Cards	Other Loans	**Total**	**Loans to and Receivables from Banks**	**Fees Receivable**
Gross Amount	**1,346,277**	**72,122**	**79,343**	**20,948**	**625,094**	**2,143,784**	**500**	**9,776**
Total Expected Losses	(724,156)	(18,258)	(71,481)	(15,806)	(478,590)	**(1,308,291)**	(500)	(9,619)
Net Amount	**622,121**	**53,864**	**7,862**	**5,142**	**146,504**	**835,493**	**-**	**157**
Collateral Value	908,143	65,943	34,131	-	34,203	**1,042,420**	-	-
Collateral Coverage (%)	**145.98**	**122.42**	**434.13**	**-**	**23.35**	**124.77**	**-**	**-**

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

(d) Prolonged and rescheduled loans to customers

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

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

Bank	2022 HRK '000	2021 HRK '000
Gross Loans to Customers		
Corporate	241,653	536,190
Retail	61,420	75,534
Total	**303,073**	**611,724**

2.1.3. Credit Risk Concentration by Industry

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

Group	2022 HRK '000	2021 HRK '000
Public administration, Defense and Compulsory Social Security	1,862,894	1,860,752
Manufacturing	1,914,675	1,007,873
Construction	1,928,907	1,603,574
Transportation and Storage	663,389	549,272
Wholesale and Retail Trade; Motor Vehicles and Motorcycles Repair	1,586,390	484,705
Professional, Scientific and Technical Activities	218,025	79,773
Accommodation and Food Service Activities	1,027,787	527,006
Agriculture, Forestry and Fishing	472,557	298,405
Information and Communications	136,932	144,897
Electricity and Gas Supply and Air-Conditioning	497,588	358,552
Arts, Entertainment and Recreation	98,103	63,418
Administrative and Auxiliary Services	87,068	77,050
Other	1,108,547	301,142
Interest	42,749	24,377
Total Gross Corporate Loans	**11,645,612**	**7,380,796**
Retail Loans	13,289,080	8,323,882
Interest	150,800	100,185
Total Gross Retail Loans	**13,439,879**	**8,424,068**
Collateralized	11,783,665	8,462,843
Expected credit losses	(2,016,218)	(1,553,064)
Total	**23,069,273**	**14,251,800**

2. RISK MANAGEMENT (continued)

2.1. Credit risk (continued)

2.1.3. Credit Risk Concentration by Industry (continued)

Bank	2022 HRK '000	2021 HRK '000
Public administration, Defense and Compulsory Social Security	1,812,913	1,860,752
Manufacturing	1,301,137	1,007,873
Construction	1,768,989	1,603,574
Transportation and Storage	663,389	549,272
Wholesale and Retail Trade; Motor Vehicles and Motorcycles Repair	809,993	484,705
Professional, Scientific and Technical Activities	91,648	79,773
Accommodation and Food Service Activities	573,958	527,006
Agriculture, Forestry and Fishing	325,018	298,405
Information and Communications	121,679	144,897
Electricity and Gas Supply and Air-Conditioning	379,319	358,552
Arts, Entertainment and Recreation	72,405	63,418
Administrative and Auxiliary Services	66,127	77,050
Other	673,695	301,142
Interest	26,937	24,377
Total Gross Corporate Loans	**8,687,207**	**7,380,796**
Retail Loans	**8,620,671**	**8,323,882**
Interest	112,304	100,185
Total Gross Retail Loans	**8,732,974**	**8,424,068**
Collateralized	8,887,191	8,462,843
Expected credit losses	(1,546,468)	(1,553,064)
Total	**15,873,713**	**14,251,800**

2.2. Liquidity Risk

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

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

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

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

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

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

Liquidity risk management is realized through:

- operational management of daily liquidity,
- operational management of short-term liquidity,
- structural liquidity management.

Operational management of daily and short-term liquidity is performed through:

- maintenance, planning and projecting coverage coefficient (LCR) within prescribed limit

Structural liquidity management is performed through:

- maintaining positions in accordance with liquidity risk exposure limits,
- maintaining of Net Stable Funding Ratio (NSFR) in accordance with defined limits;
- diversification of sources of funding.

2. RISK MANAGEMENT (continued)
2.2. Liquidity Risk (continued)

Strategic Risks and Risk Control Division is reporting monthly about liquidity risk and liquidity risk exposure limits during sessions of Assets and Liabilities Management Committee.

The Bank submits to the Croatian National Bank a monthly regulatory report on liquidity coverage. The prescribed quantitative requirements include: the amount of liquid assets (C72), the amount of potential outflows (C73), the amount of potential inflows (C74) and the calculation of liquidity coverage (C76).

The Bank maintained all positions for which the prescribed regulatory limits were set within 2022 within the prescribed regulatory limits. The Bank maintains the required reserve and the minimum required foreign currency receivables within the limits prescribed by the Decision on the required reserve and the Decision on the minimum required foreign currency receivables.

The Financial Markets Sector prepares a monthly inflow and outflow plan for Board meetings.

Responsibility for liquidity risk management rests with the Bank's Management Board. The Bank’s Asset and Liability Committee is authorized by the Management Board to manage liquidity risk. The Committee makes decisions and conclusions regarding liquidity management in its sessions. Each sector to which these decisions and conclusions made by the committee relate, is obliged to enact them.

As a part of liquidity risk management system, authority, responsibilities and procedures in conditions of liquidity crisis are determined separately.

The Bank prescribes and conducts stress tests of its liquidity. The Strategic Risk and Risk Control Division conducts stress tests taking into account Bank-specific factors (internal factors) and market factors (external factors). Stress resilience tests are conducted over the liquidity coverage ratio.

The net stable sources of financing ratio (NSFR), which is an indicator of the Bank's structural liquidity, as at 31 December 2022 is 183% (2021: 174%) while NSFR for the Group is 163.68 percent. At the same time, the liquidity coverage ratio (LCR) is 181% (2021: 183%) while on consolidated level it amounts 175%.

2.2.1. Maturity Analysis

A maturity analysis of assets and liabilities, as well as equity, of the Bank and Group, based on their remaining contractual maturity, except for financial assets at fair value through profit and loss that are analyzed as current based on their classification and the Bank’s and Group’s trading intention, as at December 31, 2021 and December 31, 2020, is presented in the tables below.

Although significant negligent maturity mismatches have been reported in the first analyzed periods, the Bank does not expect the outflow of deposits in contractual terms in accordance with its own historical experience and knowledge of the customers.

Non-maturity assets that relate to investments in subsidiaries, real estate and equipment, investment property and intangible assets are presented in the maturity category over 3 years. While financial assets related to investments in stocks and mutual funds, also without maturity, are presented in the maturity category up to 30 days.

2. RISK MANAGEMENT (continued)
2.2. Liquidity Risk (continued)
2.2.1. Maturity Analysis (continued)

Group 2022 HRK '000	0-30 Days	31-90 Days	91-360 Days	1 to 3 Years	Over 3 Years	Total
ASSETS						
Cash and Amounts Due from Banks	11,091,437	-	-	-	-	**11,091,437**
Loans to and Receivables from Banks	210,626	815	-	-	330	**211,771**
Financial Assets at Fair Value through P&L	504,182	4,459	172	-	-	**508,813**
Financial Assets at FV through OCI	-	-	-	-	28,688	**28,688**
Financial Assets at Amortized Cost	1,065	100,740	1,345,761	851,858	3,702,355	**6,001,779**
Loans to and Receivables from Customers	1,450,977	892,650	3,101,669	6,157,393	11,466,584	**23,069,273**
Deferred tax assets, net	51,507	-	-	-	17,249	**68,756**
Tax Prepayment	-	-	26	-	-	**26**
Other Assets	154,569	11,391	14,882	-	-	**180,842**
Properties, Equipment and assets with the right of use	-	-	-	-	396,914	**396,914**
Investment Properties	-	-	-	-	47,636	**47,636**
Intangible Assets	-	-	-	-	135,791	**135,791**
TOTAL ASSETS	**13,464,363**	**1,010,055**	**4,462,510**	**7,009,251**	**15,795,548**	**41,741,727**
LIABILITIES						
Financial Liabilities at FV through P&L	-	232	-	-	-	**232**
Deposits from Banks	185,860	8	-	188,363	-	**374,231**
Customer Deposits	27,959,835	1,273,090	3,968,224	1,224,522	169,067	**34,594,738**
Borrowings	17,682	48,721	251,514	1,183,041	1,026,579	**2,527,537**
Provisions for Liabilities and Expenses	111,557	6,785	71,866	196,629	11,404	**398,241**
Tax Liabilities	1,153	-	505	-	-	**1,658**
Other Liabilities	288,773	30,711	19,613	32,804	30,685	**402,586**
Equity and Reserves	-	-	-	-	3,442,504	**3,442,504**
TOTAL LIABILITIES, EQUITY AND RESERVES	**28,564,860**	**1,359,547**	**4,311,722**	**2,825,359**	**4,680,239**	**41,741,727**
MATURITY GAP	**(15,100,496)**	**(349,492)**	**150,788**	**4,183,892**	**11,115,309**	**-**
CUMMULATIVE MATURITY GAP	**(15,100,496)**	**(15,449,988)**	**(15,299,200)**	**(11,115,308)**	**-**	**-**
OFF-BALANCE	***604,764***	***990,679***	***2,337,467***	***586,631***	***1,251,176***	***5,770,717***
Derivatives	*-*	*515,143*	*-*	*-*	*-*	***515,143***
Off-Balance Contingent Liabilities	*604,764*	*475,535*	*2,337,467*	*586,631*	*1,251,176*	***5,255,574***

2. RISK MANAGEMENT (continued)
2.2. Liquidity Risk (continued)
2.2.1. Maturity Analysis (continued)

Group **2021** **HRK '000**	**0-30 Days**	**31-90 Days**	**91-360 Days**	**1 to 3 Years**	**Over 3 Years**	**Total**
ASSETS						
Cash and Amounts Due from Banks	6,192,556	-	-	-	-	**6,192,556**
Mandatory Reserve with the Croatian National Bank	1,326,442	-	-	-	-	**1,326,442**
Loans to and Receivables from Banks	156,631	132,877	-	99	230	**289,837**
Financial Assets at Fair Value through P&L	621,352	4,634	-	-	-	**625,986**
Financial Assets at FV through OCI	-	878,269	417,722	558,528	2,746,778	**4,601,297**
Financial Assets at Amortized Cost	294	150	9	-	-	**453**
Loans to and Receivables from Customers	1,081,679	328,729	1,431,591	3,576,777	7,833,024	**14,251,800**
Assets held for sale	9,200	-	-	-	-	**9,200**
Properties, Equipment and assets with the right of use	-	-	637	-	-	**637**
Investment Properties	105,833	6,214	12,606	2	-	**124,655**
Intangible Assets	-	-	-	-	248,636	**248,636**
Tax Prepayment	-	-	-	-	67,642	**67,642**
Other Assets	-	-	-	-	93,381	**93,381**
TOTAL ASSETS	**9,493,987**	**1,350,873**	**1,862,565**	**4,135,406**	**10,989,691**	**27,832,522**
LIABILITIES						
Deposits from Banks	28,017	8	-	-	-	**28,025**
Customer Deposits	19,300,178	1,049,245	2,353,789	619,448	90,184	**23,412,844**
Borrowings	2,544	31,706	107,390	263,529	991,717	**1,396,886**
Provisions for Liabilities and Expenses	36,994	797	15,470	25,657	9,162	**88,080**
Deferred tax liabilities, net	-	-	-	-	26,282	**26,282**
Tax Liabilities	-	-	-	-	35,887	**35,887**
Other Liabilities	44,636	35,419	24,414	42,524	40,778	**187,771**
Equity and Reserves	-	-	-	-	2,656,747	**2,656,747**
TOTAL LIABILITIES, EQUITY AND RESERVES	**19,412,369**	**1,117,175**	**2,501,063**	**951,158**	**3,850,757**	**27,832,522**
MATURITY GAP	**(9,918,382)**	**233,698**	**(638,499)**	**3,184,248**	**7,138,934**	**-**
CUMMULATIVE MATURITY GAP	**(9,918,382)**	**(9,684,684)**	**(10,323,183)**	**(7,138,935)**	**-**	**-**
OFF-BALANCE	***446,292***	***495,720***	***1,064,089***	***170,165***	***758,481***	***2,934,747***
Derivatives	-	*257,754*	-	-	-	***257,754***
Off-Balance Contingent Liabilities	*446,292*	*237,966*	*1,064,089*	*170,165*	*758,481*	***2,676,993***

2. RISK MANAGEMENT (continued)
2.2. Liquidity Risk (continued)
2.2.1. Maturity Analysis (continued)

Bank 2022 HRK '000	0-30 Days	31-90 Days	91-360 Days	1 to 3 Years	Over 3 Years	Total
ASSETS						
Cash and Amounts Due from Banks	9,919,462	-	-	-	-	**9,919,462**
Loans to and Receivables from Banks	1,993,607	815	-	-	330	**1,994,752**
Financial Assets at Fair Value through P&L	414,628	4,459	-	-	-	**419,087**
Financial Assets at FV through OCI	-	-	-	-	28,547	**28,547**
Financial Assets at Amortized Cost	-	97,301	1,209,421	655,301	3,485,243	**5,447,266**
Loans to and Receivables from Customers	1,004,155	454,110	2,051,611	4,475,525	7,888,312	**15,873,713**
Investments in subsidiaries	-	-	-	-	101,105	**101,105**
Deferred tax assets	-	-	-	-	22,545	**22,545**
Other Assets	132,270	11,347	14,653	-	-	**158,270**
Properties, Equipment and assets with the right of use	-	-	-	-	293,978	**293,978**
Investment Properties	-	-	-	-	44,357	**44,357**
Intangible Assets	-	-	-	-	78,397	**78,397**
TOTAL ASSETS	**13,464,122**	**568,032**	**3,275,685**	**5,130,826**	**11,942,814**	**34,381,480**
LIABILITIES						
Financial Liabilities at FV through P&L	-	232	-	-	-	**232**
Deposits from Banks	28,825	8	-	188,363	-	**217,196**
Customer Deposits	25,508,396	777,523	1,912,005	1,027,514	120,772	**29,346,210**
Borrowings	1,115	29,754	108,518	841,402	808,907	**1,789,696**
Provisions for Liabilities and Expenses	44,144	1,533	53,162	38,371	6,483	**143,693**
Other Liabilities	157,109	30,522	19,007	32,707	30,672	**270,017**
Equity and reserves	-	-	-	-	2,614,435	**2,614,435**
TOTAL LIABILITIES, EQUITY AND RESERVES	**25,739,589**	**839,572**	**2,092,692**	**2,128,357**	**3,581,269**	**34,381,479**
MATURITY GAP	**(12,275,467)**	**(271,540)**	**1,182,993**	**3,002,469**	**8,361,545**	**-**
CUMMULATIVE MATURITY GAP	**(12,275,467)**	**(12,547,007)**	**(11,364,014)**	**(8,361,545)**	**-**	**-**
OFF-BALANCE	***432,405***	***853,952***	***1,644,638***	***332,624***	***840,116***	***4,103,735***
Derivatives	-	*515,143*	-	-	-	***515,143***
Off-Balance Contingent Liabilities	*432,405*	*338,808*	*1,644,638*	*332,624*	*840,116*	***3,588,592***

2. RISK MANAGEMENT (continued)
2.2. Liquidity Risk (continued)
2.2.1. Maturity Analysis (continued)

Bank

2021 HRK '000	0-30 Days	31-90 Days	91-360 Days	1 to 3 Years	Over 3 Years	Total
ASSETS						
Cash and Amounts Due from Banks	6,192,515	-	-	-	-	**6,192,515**
Mandatory Reserve with the Croatian National Bank	1,326,442	-	-	-	-	**1,326,442**
Loans to and Receivables from Banks	156,631	132,877	-	99	230	**289,837**
Financial Assets at Fair Value through P&L	621,352	4,634	-	-	-	**625,986**
Financial Assets at FV through OCI	-	878,269	417,722	558,528	2,746,778	**4,601,297**
Financial Assets at Amortized Cost	294	150	9	-	-	**453**
Loans to and Receivables from Customers	1,081,679	328,729	1,431,591	3,576,777	7,833,024	**14,251,800**
Assets held for sale	9,200	-	-	-	-	**9,200**
Investments in subsidiaries	-	-	-	-	9,761	**9,761**
Tax Prepayment	-	-	541	-	-	**541**
Other Assets	104,771	6,019	12,507	-	-	**123,297**
Properties, Equipment and assets with the right of use	-	-	-	-	248,110	**248,110**
Investment Properties	-	-	-	-	60,629	**60,629**
Intangible Assets	-	-	-	-	93,319	**93,319**
TOTAL ASSETS	**9,492,884**	**1,350,678**	**1,862,370**	**4,135,404**	**10,991,851**	**27,833,187**
LIABILITIES						
Deposits from Banks	28,017	8	-	-	-	**28,025**
Customer Deposits	19,309,423	1,049,245	2,353,789	619,448	90,184	**23,422,089**
Borrowings	2,544	31,706	107,390	263,529	991,717	**1,396,886**
Provisions for Liabilities and Expenses	36,994	797	15,405	25,657	9,162	**88,015**
Deferred tax liabilities, net	-	-	-	-	26,282	**26,282**
Tax Liabilities	-	-	-	-	35,887	**35,887**
Other Liabilities	43,907	34,593	23,992	42,315	40,765	**185,572**
Equity and Reserves	**-**	**-**	**-**	**-**	**2,650,430**	**2,650,430**
TOTAL LIABILITIES, EQUITY AND RESERVES	**19,420,886**	**1,116,349**	**2,500,576**	**950,949**	**3,844,427**	**27,833,187**
MATURITY GAP	**(9,928,002)**	**234,329**	**(638,206)**	**3,184,455**	**7,147,424**	**-**
CUMMULATIVE MATURITY GAP	**(9,928,002)**	**(9,693,673)**	**(10,331,879)**	**(7,147,424)**	**-**	**-**
OFF-BALANCE	***446,292***	***495,720***	***1,064,089***	***170,165***	***758,481***	***2,934,747***
Derivatives	-	*257,754*	-	-	-	***257,754***
Off-Balance Contingent Liabilities	*446,292*	*237,966*	*1,064,089*	*170,165*	*758,481*	***2,676,993***

2.3. Market Risk

The exposure to market risk occurs in balance sheet and off-balance sheet positions recognized at market (fair) value:

- financial assets at fair value through profit and loss account,
- financial assets at fair value through other comprehensive income,
- positions denominated in foreign currency (including placements and liabilities linked to foreign currencies).

All trading instruments are subject to market risk, which is the risk that future changes in market conditions may make an instrument less valuable or more onerous (i.e. impaired). Trading financial instruments are recognized at fair value, and all changes in market conditions directly affect trading income. The Bank manages their use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed through acquisitions or disposals of financial instruments in accordance with the risk limits set in Market Risk Management Guidelines.

Market risk management of the Bank is conducted in accordance with regulatory requirements, as is defined by internal policies and procedures regarding market risks which are regularly revised by the Risk Management Division.

Strategic Risks and Risk Control Division daily calculates market risk exposure figures, usage of exposure to market risk limits and capital requirements for exposure to market risks.

In the measurement of the market risk exposure, the Bank relies on regulations set out by the Croatian National Bank and monitors:

- Capital requirement calculated by the standard method calculated in accordance with the Directive (EU) no. 575/2013 of European Parliament and Council,
- Value at Risk (VaR) which represents the maximum potential loss that the Bank could incur as a result of changes in market risk factors (interest rates, exchange rate and share prices) for a period of retaining the same position for 10 days at statistical accuracy of 99%. VaR is calculated at the end of the day and does not include daily exposure arising from a change in position. To calculate VaR, a database containing 250 historical figures is used,

In addition, the Bank internally follows:

- measure of interest sensitivity (BPV limits), i.e. change in price with respect to change in yield by a basis point
- measure of the limit in relation to the nominal amount .

The Strategic Risk and Risk Control Division reports daily on the utilization of market risk exposure limits to the Management Board, the Financial Markets Division, the Financial Management Division and the Assets and Liabilities Management Office, and monthly to the Assets and Liabilities Management Committee.

2. RISK MANAGEMENT (continued)
2.3. Market Risk (continued)

a) Financial assets at fair value through profit and loss account

The table below shows the movements in those measures at December 31, 2022 and December 31, 2021 for the Bank and Group.

	Group		Bank	
2022	**Position HRK '000**	**VaR**	**Position HRK '000**	**VaR**
FX Risk	611,298	(2,826)	33,772	(383)
Debt Securities Position Risk	407,384	(6,647)	317,658	(6,131)
Equity Securities Position Risk	24,919	(1,403)	24,919	(1,403)
Investment Fund Position Risk	69,305	(3,321)	69,305	(3,321)
Correlation Effect	-	5,188	-	3,450
Market Risk		**(9,009)**		**(7,788)**
2021	**Position HRK '000**	**VaR**	**Position HRK '000**	**VaR**
FX Risk	15,000	(59)	15,000	(59)
Debt Securities Position Risk	511,031	(2,822)	511,031	(2,822)
Equity Securities Position Risk	24,706	(1,033)	24,706	(1,033)
Investment Fund Position Risk	80,933	(1,998)	80,933	(1,998)
Correlation Effect	-	2,103	-	2,103
Market Risk		**(3,809)**		**(3,809)**

b) Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income consist of debt and equity securities.

The table below shows market value and risk value movements for the portfolio of debt and equity securities at fair value through other comprehensive income.

	Group		Bank	
Debt securities	**Market Value HRK '000**	**VaR**	**Market Value HRK '000**	**VaR**
2022	507,357	(5,671)	-	-
2021	4,552,423	(18,216)	4,552,423	(18,216)
Equity securities	**Market Value HRK '000**	**VaR**	**Market Value HRK '000**	**VaR**
2022	-	-	-	-
2021	22,021	(3,373)	22,021	(3,373)

2. RISK MANAGEMENT (continued)

2.4. Interest Rate Risk in the Bank's Non-Trading Book

Interest rate risk in the Bank's non-trading book is a risk which can have a negative effect on economic value of the Bank's book and earnings (net interest income), because of variation of market interest rates.

The Bank manages interest rate risk in its non-trading book in accordance with the legal and regulatory requirements. In line with the Croatian National Bank's Decision on the Management of Interest rate risk in the Bank's and Group's non-trading book, it is required to submit quarterly reports to the Croatian National Bank about the interest rate risk in the bank's non-trading book.

Apart from those regulations, managing interest rate risk in the Bank's non-trading book is regulated by:

- Risk Management Policy, and
- Manual on Managing Interest Rate Risk in the Bank's non-trading book.

The Manual defines the management process, evaluation methods and measures of exposure to interest rate risk in the Bank's non-trading book, as well as exposure limits, manner and frequency of reporting about the Bank's exposure to that The Bank and Group assesses interest rate risk in the bank's non-trading book by observing this risk from two perspectives:

- Perspective of economic value: a potential market value decrease of the Bank's non-trading book because of interest rate movements in the market,
- Profit perspective: a potential decrease of net interest income because of movements in market interest rates.

Perspective of Economic Value of Capital

When assessing the exposure to interest rate risk arising from transactions in the book of positions that are not traded from the perspective of the economic value of capital, the Bank allocates interest-sensitive positions of the bank's book in time zones, distinguishing positions with fixed interest rate, variable interest rate and interest rate which can be changed by the decision of the Management Board (administrative interest rate) and estimates the change in the market value of the bank's book due to the simulated change in interest rates. The bank calculates the ratio of the change in the economic value of the bank's book and regulatory capital and maintains it in the ratios of the regulatory requirement. The change in the economic value of the Bank's book as at 31 December 2022 for the Bank amounted to HRK 182,920 thousand or 7.04% of regulatory capital (2021: HRK 30,825 thousand or 1.17% of regulatory capital) and for the Group HRK 294,924 thousand, or 8.08% of the regulatory capital.

Profit Perspective

The prospect of earnings includes a potential decrease in net interest income in case of changes in interest rates on the market. When calculating interest rate risk from a profit perspective, the Bank taking into account the potential impact of changes in interest rates from a profit perspective in a time period of up to 3 years and assuming a constant balance sheet, monitors the maximum impact on net interest income due to a sudden parallel shift of the yield curve by +/- 200 basis points. The potential change in net interest income at the end of 2022 for the Bank amounts to HRK 65,107 thousand (2021: HRK 6,461 thousand).

Likewise, the Bank conducts a minimum yearly test of stress resistance based on more significant intensity of changes in interest rates.

Strategic Risks and Risk Control Division reports to the Bank for the Management of Interest Rate Risk in the Bank's Book of Assets and Liabilities Management.

2.5. Foreign Exchange Risk

The Bank and the Group are exposed to FX risk through transactions in foreign currencies.

Foreign currency exposure arises from credit, deposit-taking, investment and trading activities. It is monitored daily in accordance with legislation and internally set limits, for each currency and for the total balance sheet denominated in or linked to foreign currency.

The Bank manages their currency risk by setting principles and limits for foreign currency exposures and monitoring exposures against these limits. The Bank directs their business activities towards trying to minimize the gap between assets and liabilities denominated in or linked to a foreign currency and maintaining daily business activities within the internal and regulatory limits.

The Bank and the Group are exposed to the risk of changes in the euro exchange rate to an extent that is not significant. As of December 31, 2022, the amount of assets denominated in euros or currencies linked to the euro amounted to HRK 15,045,714 thousand for the Group and HRK 11,384,718 thousand for the Bank (2021: Group and Bank HRK 8,658,970 thousand). Liabilities denominated in euros or currencies linked to the euro amounted to HRK 14,743,109 thousand for the Group and HRK 11,943,010 thousand for the Bank (2021: Group and Bank HRK 8,972,187 thousand). On December 31, 2022, the drop in the kuna/euro exchange rate by 1% (appreciation of the kuna) affected the result of the Bank and the Group in the amount of HRK 3,132 thousand. Considering the introduction of the euro as the official currency from 1 January 2023 the Bank and the Group will no longer be exposed to the risk of changes in the euro exchange rate.

The amounts of total assets and liabilities of the Bank and the Group as at 31 December 2022 and 31 December 2021 in HRK and foreign currencies (amounts denominated in HRK with a foreign currency clause refer mainly to the euro) are presented in the tables below.

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Group 2022 HRK '000	HRK	HRK Linked to Foreign Currencies	Euro	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	10,395,838	-	575,596	120,003	**11,091,437**
Loans to and Receivables from Banks	84,684	-	3,575	123,512	**211,771**
Financial Assets at Fair Value through P&L	381,326	125,688	1,436	363	**508,813**
Financial Assets at Fair Value through OCI	4,257	-	136	24,295	**28,688**
Financial Assets at Amortized Cost	2,409,515	1,388,216	2,204,048	-	**6,001,779**
Loans and Receivables from Customers	12,326,120	9,932,748	795,862	14,543	**23,069,273**
Deferred tax assets, net	68,756	-	-	-	**68,756**
Tax Prepayment	26	-	-	-	**26**
Other Assets	162,381	-	18,409	52	**180,842**
Property, Equipment and Assets with right to use	396,915	-	-	-	**396,915**
Investment property	47,636	-	-	-	**47,636**
Intangible Assets	135,791	-	-	-	**135,791**
TOTAL ASSETS	**26,413,245**	**11,446,652**	**3,599,062**	**282,768**	**41,741,727**
LIABILITIES					
Financial Liabilities at Fair Value through P&L	-	-	-	232	**232**
Deposits from Banks	136,329	-	235,320	2,581	**374,230**
Customer Deposits	19,901,078	79,562	13,611,884	1,002,214	**34,594,738**
Borrowings	1,742,617	310,444	474,476	-	**2,527,537**
Provisions for Liabilities and Expenses	398,241	-	-	-	**398,241**
Income tax liability	1,658	-	-	-	**1,658**
Other Liabilities	370,868	-	31,423	295	**402,586**
Total Equity and reserves	3,442,504	-	-	-	**3,442,504**
TOTAL LIABILITIES, EQUITY AND RESERVES	**25,993,296**	**390,006**	**14,353,103**	**1,005,322**	**41,741,727**
NET FOREIGN EXCHANGE POSITION	**419,949**	**11,056,646**	**(10,754,041)**	**(722,554)**	**-**

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Group 2021 HRK '000	HRK	HRK Linked to Foreign Currencies	Euro	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	4,753,612	-	1,125,596	313,347	**6,192,555**
Mandatory Reserve with the Croatian National Bank	1,326,442	-	-	-	**1,326,442**
Loans to and Receivables from Banks	-	-	628	289,209	**289,837**
Financial Assets at Fair Value through P&L	356,542	267,784	1,660	-	**625,986**
Financial Assets at Fair Value through OCI	2,232,973	1,260,690	1,059,152	48,482	**4,601,297**
Financial Assets at Amortized Cost	453	-	-	-	**453**
Loans and Receivables from Customers	9,302,542	4,899,099	38,222	11,937	**14,251,800**
Deferred tax assets, net	9,200	-	-	-	**9,200**
Tax Prepayment	637	-	-	-	**637**
Other Assets	118,500	-	6,139	17	**124,656**
Property, Equipment and Assets with right to use	248,636	-	-	-	**248,636**
Investment property	67,642	-	-	-	**67,642**
Intangible Assets	93,381	-	-	-	**93,381**
TOTAL ASSETS	**18,510,560**	**6,427,573**	**2,231,397**	**662,992**	**27,832,522**
LIABILITIES					
Deposits from Banks	25,468	-	671	1,886	**28,025**
Customer Deposits	14,212,231	71,843	8,490,859	637,911	**23,412,844**
Borrowings	1,002,066	296,027	98,793	-	**1,396,886**
Provisions for Liabilities and Expenses	88,080	-	-	-	**88,080**
Deferred Tax Liabilities, net	26,282	-	-	-	**26,282**
Income tax liability	35,887	-	-	-	**35,887**
Other Liabilities	173,372	-	13,948	450	**187,770**
Total Equity and reserves	2,656,747	-	-	-	**2,656,747**
TOTAL LIABILITIES, EQUITY AND RESERVES	**18,220,133**	**367,870**	**8,604,271**	**640,247**	**27,832,522**
NET FOREIGN EXCHANGE POSITION	**290,427**	**6,059,703**	**(6,372,874)**	**22,745**	**-**

2. RISK MANAGEMENT (continued)

2.5. Foreign Exchange Risk (continued)

Bank 2022 HRK '000	HRK	HRK Linked to Foreign Currencies	Euro	Other Foreign Currencies	Total
ASSETS					
Cash and Amounts Due from Banks	9,488,843	-	326,744	103,875	**9,919,462**
Mandatory Reserve with the Croatian National Bank	-	-	-	-	**-**
Loans to and Receivables from Banks	710,296	-	1,161,635	122,821	**1,994,752**
Financial Assets at Fair Value through P&L	291,600	125,688	1,436	363	**419,087**
Financial Assets at Fair Value through OCI	4,116	-	136	24,295	**28,547**
Financial Assets at Amortized Cost	2,110,526	1,371,461	1,965,279	-	**5,447,266**
Loans and Receivables from Customers	9,445,238	6,100,035	313,897	14,543	**15,873,713**
Assets Held for sale	-	-	-	-	**-**
Investments in Subsidiaries	101,105	-	-	-	**101,105**
Deferred tax assets, net	22,545	-	-	-	**22,545**
Other Assets	139,811	-	18,407	52	**158,270**
Property and Equipment	293,978	-	-	-	**293,978**
Investment property	44,357	-	-	-	**44,357**
Intangible Assets	78,397	-	-	-	**78,397**
TOTAL ASSETS	**22,730,813**	**7,597,184**	**3,787,534**	**265,949**	**34,381,480**
LIABILITIES					
Financial Liabilities at Fair Value through P&L	-	-	-	232	**232**
Deposits from Banks	9,620	-	189,437	18,139	**217,196**
Customer Deposits	17,566,453	79,562	10,929,385	770,810	**29,346,210**
Borrowings	1,067,329	270,536	451,831	-	**1,789,696**
Provisions for Liabilities and Expenses	143,693	-	-	-	**143,693**
Other Liabilities	247,758	-	22,259	-	**270,017**
Total Equity and reserves	2,614,435	**-**	**-**	**-**	**2,614,435**
TOTAL LIABILITIES, EQUITY AND RESERVES	**21,649,289**	**350,098**	**11,592,912**	**789,181**	**34,381,480**
NET FOREIGN EXCHANGE POSITION	**1,081,524**	**7,247,086**	**(7,805,378)**	**(523,232)**	**-**

2. RISK MANAGEMENT (continued)
2.5. Foreign Exchange Risk (continued)

Bank **2021** **HRK '000**	**HRK**	**HRK Linked to Foreign Currencies**	**Euro**	**Other Foreign Currencies**	**Total**
ASSETS					
Cash and Amounts Due from Banks	4,753,572	-	1,125,596	313,347	**6,192,515**
Mandatory Reserve with the Croatian National Bank	1,326,442	-	-	-	**1,326,442**
Loans to and Receivables from Banks	-	-	628	289,209	**289,837**
Financial Assets at Fair Value through P&L	356,542	267,784	1,660	-	**625,986**
Financial Assets at Fair Value through OCI	2,232,973	1,260,690	1,059,152	48,482	**4,601,297**
Financial Assets at Amortized Cost	453	-	-	-	**453**
Loans and Receivables from Customers	9,302,542	4,899,099	38,222	11,937	**14,251,800**
Assets Held for sale	9,200	-	-	-	**9,200**
Investments in Subsidiaries	9,761	-	-	-	**9,761**
Deferred tax assets, net	541	-	-	-	**541**
Other Assets	117,142	-	6,139	16	**123,297**
Property and Equipment	248,110	-	-	-	**248,110**
Investment property	60,629	-	-	-	**60,629**
Intangible Assets	93,319	-	-	-	**93,319**
TOTAL ASSETS	**18,511,226**	**6,427,573**	**2,231,397**	**662,991**	**27,833,187**
LIABILITIES					
Deposits from Banks	25,468	-	671	1,886	**28,025**
Customer Deposits	14,221,428	71,843	8,490,905	637,913	**23,422,089**
Borrowings	1,002,066	296,027	98,793	-	**1,396,886**
Provisions for Liabilities and Expenses	88,015	-	-	-	**88,015**
Deferred tax libility, net	26,282	-	-	-	**26,282**
Income tax liability	35,887	-	-	-	**35,887**
Other Liabilities	171,174	-	13,948	450	**185,572**
Total Equity and reserves	2,650,430	-	-	-	**2,650,430**
TOTAL LIABILITIES, EQUITY AND RESERVES	**18,220,751**	**367,870**	**8,604,317**	**640,249**	**27,833,187**
NET FOREIGN EXCHANGE POSITION	**290,475**	**6,059,703**	**(6,372,920)**	**22,742**	**-**

2.6. Operating Risk Management

Operating risk is inherent to all activities, processes, products and systems of the Bank. The Bank ensures appropriate operating risk management by applying procedures and a system of authorizations and responsibilities specified in detail in its internal by-laws, the Risk Management Policy and the Internal Operating Risk Management Manual as root documents. The operating risk management system has been established through appropriate bodies of the Bank and an efficient internal control system.

The Bank defines operating risk as a risk of an event which, as a consequence, exposes the Bank to financial losses, with the cause being inadequate or ineffective internal processes, systems, human resources, or external influences. This definition includes legal risk. Significant operating risk is a risk of an event resulting in significant loss because of operating risk.

In order to efficiently manage the overall exposure to operating risk, the Bank applies the following:

- Collecting and analyzing internal data about operating risk events,
- Self-assessment of risks and controls,
- Assessment of information technology risk, and
- Business Impact Analysis of unavailability of key business processes.

The Bank assesses the outsourcing risk as an additional exposure to all significant risks arising from the fact that the Bank does not itself perform the outsourced activities, but rather that those activities are performed by external vendors; hence, the impact of outsourcing on the Bank's risk profile is assessed.

The Bank assesses the impact of introducing a new product on the Bank's risk profile, which includes exposure to all significant risks.

For the purpose of efficient operating risk management, the Bank has set up the Operating Risk Management Committee. Based on the reports on the Bank's exposure to operating risk, the Operating Risk Management Committee draws conclusions and makes decisions about appropriate measures necessary to undertake in order to overmaster the exposure to operating risk.

The Bank applies a standardized approach to calculating the capital requirement for operating risk.

2.7. Capital Management

Capital requirement calculations are based on exposures to customers classified into the prescribed exposure categories, which are then weighted according to risk depending on the exposure category of the customer (exposure to sovereign debt, to institutions, public bodies, individuals, etc.), remaining maturity, type of collateral (i.e. residential or commercial property), diversification of loans, identified number of days past due and the amount of provisions made.

The Bank manages capital in line with internal capital adequacy assessment (ICAAP). It establishes significant risks to which it is exposed or estimates that it may be exposed, calculate or estimate the required capital requirements for exposure to particular risks and establish the total required (internal) capital for the current and subsequent period in accordance with the business plan. In accordance with capital requirements so expressed, capital planning is carried out whereby items of available capital are considered exclusively to items recognized for the purpose of calculating the regulatory capital.

In planning capital needs it is necessary to take into account capital adequacy, i.e. regulatory capital requirements for exposures to credit, market and operational risk.

2. RISK MANAGEMENT (continued)
2.7. Capital Management (continued)

Regulatory minimum rate of total capital adequacy prescribed by law on 31.12.2022 is 8 percent. The regulatory obligation to maintain the rate of protective layers of capital is prescribed for the rate of protective layer for capital preservation of 2.5 percent (2021: 2.5 percent), protective layer for structural systemic risk of 1.5 percent (2021: 1.5 percent) and a protective layer for systemically important credit institutions in the Republic of Croatia in the amount of 0.5 percent (2021: 0.5 percent). During 2022 and 2021, the Bank continuously fulfilled all regulatory capital requirements.

Below is an overview of regulatory capital movements for the Bank:

Bank	2022 HRK '000	2021 HRK '000
REGULATORY CAPITAL		
Tier-1 Capital	2,596,701	2,631,032
Common Equity Tier-1 Capital	*2,596,701*	*2,631,032*
Tier-2 Capital	-	-
Total regulatory capital	**2,596,701**	**2,631,032**
Credit Risk Exposure Using Standardized Approach	9,318,279	8,427,074
Exposure to FX and Position Risk	278,729	326,540
Exposure to Operational risk	1,419,032	1,503,453
Exposure to Credit Value Adjustment Risk	2,095	-
Total Risk Exposure	**11,018,135**	**10,257,067**
Total Capital Adequacy Ratio	**23.57%**	**25.65%**

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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 existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Group's portfolio exposed to credit risk represents the major source of estimation uncertainty. This and other key sources of estimations uncertainty, that have a significant risk of causing a possible material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Expected credit losses

The Group continuously monitors creditworthiness of its customers. In accordance with the requirements of the CNB, the need to reduce the value of the balance sheet and the provision for off-balance sheet exposure to credit risk is estimated quarterly for large exposures or monthly for a portfolio of exposures below HRK 700 thousand. Impairment losses are mainly recognized in relation to the net book value of loans to legal entities and households (presented in Note 11), and as provisions for liabilities and expenses arising from off-balance sheet exposures to customers, most often in the form of approved guarantees, letters of credit and approved unused loans (presented in notes 23 and 39). Impairment losses are also considered for credit exposure to banks and for other assets not carried at fair value and where the primary impairment risk is not a credit risk. Impairment policy of placements is explained in the note 2.1.2.

Following tables represent the summary of impairment losses of loans to and receivables from customers, as well as provisions for off-balance sheet exposures:

Group	Note	2022 HRK '000	2021 HRK '000
Expected Credit Losses of Loans to and Receivables from Customers	11	2,016,218	1,553,064
Provisions for Off-Balance Sheet Exposures	23	38,198	39,781
Total		**2,054,416**	**1,592,845**

Bank	Note	2022 HRK '000	2021 HRK '000
Expected Credit Losses on Loans to and Receivables from Customers	11	1,546,467	1,553,064
Provisions for Off-Balance Sheet Exposures	23	61,893	39,781
Total		**1,608,360**	**1,592,845**

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Loans and receivables from customers - impairment losses

The Group estimates creditworthiness of its customers and, in accordance with it, estimates impairment losses per balance sheet exposures and provisions for liabilities related to off-balance potential liabilities, whether exposures with no default status or exposure with default status, whereby relevant CNB regulations are taken into account which prescribe credit losses and is based on the International Financial Reporting Standard 9.

Expected credit losses policy is presented in detail in the note 2.1.2. Expected credit losses. At the end of the year, gross value of impaired assets placed into risk categories B and C, as well as recognized impairment of these exposures, were as follows:

Group	2022	2021
Gross Exposures (in HRK'000)	**2,152,244**	**2,154,060**
Impairment Loss (in HRK'000)	1,624,484	1,318,231
Impairment Rate	**75.48%**	**61.20%**

Bank	2022	2021
Gross Exposures (in HRK'000)	**1,666,454**	**2,154,060**
Impairment Loss (in HRK'000)	1,303,350	1,318,410
Impairment Rate	**78.21%**	**61.21%**

Any additional increase in the impairment rate by one percentage point of gross exposure as at 31 December 2022 would result in an increase in expected credit losses for the Bank in amount of HRK 16,665 thousand and for the Group in amount of HRK 21,522 thousand (2021: Bank and Group: HRK 21,541 thousand).

Market Value of Pledged Property and Foreclosed Asset

As disclosed above (note 2.1.3 (c)), loans and receivables from customers include exposures with a book value of HRK 1,656,469 thousand (2021: the Bank and the Group HRK 2,143,784 thousand) classified by the Group and the Bank as impaired due to the disadvantage of payment, which is secured by a pledge over real property, plant and equipment. In assessing the recoverability of pledges based on real estate in a pledge, the market value of the property in the collateral is reduced and reduced to the present value using the impairment factor and the collection deadlines in accordance with CNB regulation.

Provisions for Court Cases Initiated Against the Group

In calculating provisions for court, expenses the Group discounts expected future cash flows with respect to the liabilities using the CNB's discount rate.

The Group recognizes provisions as a result of legal proceedings started against the Group which are certain to result in an outflow of funds to settle claims against the Group and if the amounts can be reliably estimated. Provisions are recognized at the level of individual lawsuits filed against the Group and based on an internal legal assessment and consultation with law firms with which the Group cooperates. The management estimated the amount of provisions for unconverted and converted loans taking into account publicly available information, court verdicts and expert opinions of the law firm. Taking into account the current number of lawsuits filed against the Group and the time between the filing of the lawsuit and the pronouncement of the final judgment, the Group made a decision on the amount of the provision. The Group believes that the current level of provisions is sufficient to settle all claims arising from lawsuits related to CHF loans. If the number of lawsuits on CHF loans increased by 10% compared to the current number of lawsuits filed against the Group, the provision level would increase by HRK 10 million, taking into account the currently expected probability of losing these disputes.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Please refer to Note 23 Provisions for Liabilities and Expenses for details regarding CHF loan litigations initiated against the Group.

The impact of the COVID-*19 pande*mic on business

The impact of the COVID-19 pandemic was partially present in the first half of the business year, and the gradual abolition of the remaining restrictive measures throughout the business year completely minimized its impact, and it is very soon expected that the WHO (World Health Organization) will declare the official end of the pandemic, especially after that the Chinese authorities have lifted the COVID restrictions in their entirety from January 8, 2023, which could be a growth driver for economies around the world. Regardless of that, if a new variant of this disease were to appear, the effects could be reflected back on economic activity in Croatia and the EU, primarily depending on the reaction of the Chinese authorities with regard to the previous policy of zero tolerance to COVID-19, which could result by closing the market again, and thereby destabilizing supply channels. In the absence of such a scenario, the Bank's management has not identified and does not expect any material impact of the COVID-19 pandemic on operations.

The impact of the war in Ukraine on business

The war in Ukraine is the most significant generator of geopolitical instability, which most significantly determines the prospects for the stabilization of economic activity in the euro area, as well as the strength and width of the inflationary spiral. The recent macroeconomic projections of the European Commission and the ECB confirm the aforementioned assumptions about slower economic growth in 2023 due to the pressure of inflation and countercyclical mechanisms undertaken by the monetary authorities to suppress it, which is reflected in the level of interest rates, lending conditions and losses on the capital markets. The reactions of the fiscal authorities, which were significant in the years of the strongest impact of the pandemic, will in the future period focus on preserving the real value of income.

In a narrower sense, the Bank implemented and continued to monitor the changes in restrictive measures (sanctions) imposed by the EU against Russia, especially in the field of financial services. At the same time, the Bank has no exposure to entities in Ukraine and Belarus, and has an insignificant exposure to entities in Russia (0.00001%). NHB has a small exposure to entities in Russia, Ukraine and Belarus (balance sheet 0.03% and off-balance sheet 0.28%). Also, the Bank's exposure to Russia in the financial markets segment is insignificant. At the same time, the Bank and its branch NHB terminated all business and debtor-creditor relations with credit institutions in Russia, which also applies to the former owner of the mentioned branch - Sberbank Russia, which minimized the direct risk. Indirect risks are monitored at the same time, and primarily consist of the effect that inflation due to the increase in energy and food prices has on the Bank's clients. In this regard, the Bank's management has not identified nor expects a material impact of the war in Ukraine on the Bank's operations, except in the case of the escalation of the war and its geographical spread to the EU, which is not the expected scenario.

The impact of inflation on business

The reopening of economies after the COVID-19 lockdown and the associated recovery in demand that was not accompanied by a simultaneous expansion of production and supply, as well as the Russian invasion of Ukraine and its effects on the energy market, resulted in galloping inflation not seen in decades. As the main weapon to fight inflation is in the hands of monetary policy holders, after more than a decade of falling and low interest rates, in 2022 there was an increase in reference interest rates, which spilled over to lending prices on the market. The combination of these factors and unfavorable demographic trends implies that the economies of Western and Central Europe, which is the region to which Croatia also belongs, have entered an era of low growth in GDP, income and consumption, while the effect on investments is uncertain because, in the event of continued inflationary pressures, central banks would raise benchmark interest rates to levels where most long-term investment projects would not be able to provide a return on investment, which is not an expected scenario. Accordingly, the Bank expects inflationary pressures to be curbed in 2023, and no material negative effects of inflation on the Bank's operations have been identified or expected, while in the event of inflationary pressures continuing, there would be an impact on purchasing power and a reduction in real consumption, which would spilled over to the profitability of companies which, due to the pressure of smaller output volumes, rising input prices and high debt prices, may have a reduced investment appetite or credit potential, i.e. rating from the Bank's perspective as a creditor. The latter scenario is not expected.

4. SEGMENT REPORTING

A segment is a distinguishable component of the Bank and Group that is engaged either in providing products or services (business segment) which achieves economic benefits or costs, including the transactions with other parts of the Bank and Group. The Group did not use internal transfer prices in determining the success of the segments.

The Group identified four major segments: banking with legal entities - divided into two sub-sectors (business with large companies and the public sector, small and medium-sized businesses), banking with physical persons, financial markets (including treasury and investment banking with custody) and direct banking. The description of business segments and their financial review is presented in Note 4 to these financial statements.

Group’s operations, its total assets as well as the majority of its clients are based in Croatia.

The Group's business segments represent the primary reportable segments. The primary format is based on the Group’s management and internal reporting structure. As the Group does not allocate overhead expenses and equity to segments, segment profitability is not reported.

Business Segments

The Group comprises following primary reportable segments:

- **Corporate Banking**
  Includes loans, deposits and other transactions and balances with corporate customers,
  Corporate banking is divided into two sub-segments:
  - Large companies and public sector
  - Small and medium enterprises
- **Retail Banking**
  Includes loans, deposits, direct (card) business, other transactions with retail customers and uninterrupted functioning and development of all direct distribution channels of products and services of the Bank.
- **Financial Markets**
  Group financing operations and the aggregate liquidity and foreign exchange risk activities in respect of borrowings, transactions with debt securities, use of derivatives and investments in liquid assets. It also includes asset management, securities custody and brokerage services
- **Direct banking**
  Includes the smooth operation and development of all direct distribution channels of the Bank's products and services and card business.

The Group does not apply internal transfer prices in determining the financial results of segments. Internal transfer prices are a tool which the Group uses in reporting management.

Classification of individual sectors for the purposes of notes on the results and position of segments differs from other parts of the financial reports. This primarily refers to the owner of small enterprises, who are part of Corporate Banking in the report of segmentation, while in the financial reports part of positions related to the Retail Banking.

At least monthly, the Bank's Management Board reviews the management reports of each individual segment. There are no transactions between segments.

4. SEGMENT REPORTING (continued)

Group **2022** **HRK '000**	**Corporate**	**Retail**	**Financial Market**	**Direct banking**	**Unallocated**	**Total**
Net Interest Income	193,367	463,117	77,828	-	(2,432)	**731,880**
Net Fees and Commissions Income	92,768	142,930	2,300	45,540	(23,408)	**260,130**
Trading and Investment Income	-	-	(8,714)	-	-	**(8,714)**
Other Income	890	458	2,549	2,921	11,865	**18,682**
Operating Income	**287,025**	**606,504**	**73,964**	**48,461**	**(13,975)**	**1,001,978**
General and Administrative Expenses	(47,453)	(186,286)	(18,415)	(36,965)	(406,068)	**(695,188)**
Depreciation and Amortization	-	-	-	-	(98,176)	**(98,176)**
Impairment Losses on Loans and Other Assets	(28,086)	(133,957)	20,193	-	(44,085)	**(185,935)**
Provisions for Liabilities and Expenses	-	-	-	-	(59,953)	**(59,953)**
Operating Expenses	**(75,539)**	**(320,244)**	**1,779**	**(36,965)**	**(608,281)**	**(1,039,250)**
Gain on bargain purchase	**-**	**-**	**-**	**-**	**1,018,765**	**1,018,765**
Profit Before Taxation	**211,486**	**286,261**	**75,742**	**11,496**	**396,509**	**981,493**
Income Tax	-	-	-	-	(27,135)	**(27,135)**
Profit for the Year	**211,486**	**286,261**	**75,742**	**11,496**	**369,374**	**954,358**
Segment Assets	11,185,374	13,336,119	16,736,401	116	170,780	**41,428,790**
Unallocated Assets	-	-	-	-	312,937	**312,937**
Total Assets	**11,185,374**	**13,336,119**	**16,736,401**	**116**	**483,717**	**41,741,727**
Segment Liabilities	18,449,279	17,304,584	1,678,591	95,978	-	**37,528,433**
Unallocated Equity, Reserves and Liabilities	-	-	-	-	4,213,294	**4,213,294**
Total Equity, Reserves and Liabilities	**18,449,279**	**17,304,584**	**1,678,591**	**95,978**	**4,213,294**	**41,741,727**

4. SEGMENT REPORTING (continued)

Group **2021** **HRK '000**	**Corporate**	**Retail**	**Financial Market**	**Direct banking**	**Unallocated**	**Total**
Net Interest Income	139,224	317,836	67,048	-	-	**524,109**
Net Fees and Commissions Income	62,453	97,193	3,390	31,924	3,486	**198,447**
Trading and Investment Income	-	-	83,170	-	-	**83,170**
Other Income	7,744	10,563	1,190	-	5,287	**24,784**
Operating Income	**209,422**	**425,592**	**154,798**	**31,924**	**8,774**	**830,510**
General and Administrative Expenses	(32,636)	(138,468)	(6,648)	(38,310)	(234,062)	**(450,124)**
Depreciation and Amortization	-	-	-	-	(67,823)	**(67,823)**
Impairment Losses on Loans and Other Assets	(4,318)	(63,696)	109	-	2,095	**(65,810)**
Provisions for Liabilities and Expenses	-	-	-	-	(307)	**(307)**
Operating Expenses	**(36,954)**	**(202,164)**	**(6,539)**	**(38,310)**	**(300,097)**	**(584,064)**
Profit Before Taxation	**172,468**	**223,428**	**148,259**	**(6,386)**	**(291,323)**	**246,446**
Income Tax	-	-	-	-	(43,821)	**(43,821)**
Profit for the Year	**172,468**	**223,428**	**148,259**	**(6,386)**	**(335,144)**	**202,625**
Segment Assets	6,892,916	9,114,053	11,579,202	168	(655)	**27,585,684**
Unallocated Assets	-	-	-	-	246,837	**246,837**
Total Assets	**6,892,916**	**9,114,053**	**11,579,202**	**168**	**246,182**	**27,832,522**
Segment Liabilities	11,503,462	12,175,603	1,241,535	56,330	2,262	**24,979,193**
Unallocated Equity, Reserves and Liabilities	-	-	-	-	2,853,329	**2,853,329**
Total Equity, Reserves and Liabilities	**11,503,462**	**12,175,603**	**1,241,535**	**56,330**	**2,855,591**	**27,832,522**

4. SEGMENT REPORTING (continued)

Bank 2022 HRK '000	Corporate	Retail	Financial Market	Direct banking	Unallocated	Total
Net Interest Income	136,234	304,421	92,502	-	(1,092)	**532,065**
Net Fees and Commissions Income	73,104	103,242	2,300	45,540	(17,211)	**206,975**
Trading and Investment Income	-	-	(8,963)	-	-	**(8,963)**
Other Income	890	458	2,549	2,921	4,159	**10,976**
Operating Income	**210,227**	**408,121**	**88,388**	**48,461**	**(14,143)**	**741,053**
General and Administrative Expenses	(35,123)	(143,800)	(6,863)	(34,064)	(273,372)	**(493,222)**
Depreciation and Amortization	-	-	-	-	(70,057)	**(70,057)**
Impairment Losses on Loans and Other Assets	49,891	(53,334)	21,207	-	13,303	**31,067**
Provisions for Liabilities and Expenses	-	-	-	-	(50,411)	**(50,411)**
Operating Expenses	**14,768**	**(197,134)**	**14,344**	**(34,064)**	**(380,537)**	**(582,624)**
Profit Before Taxation	**224,995**	**210,987**	**102,732**	**14,396**	**(394,680)**	**158,430**
Income Tax	-	-	-	-	(25,824)	**(25,824)**
Profit for the Year	**224,995**	**210,987**	**102,732**	**14,396**	**(420,504)**	**132,606**
Segment Assets	8,243,073	8,856,699	16,911,863	116	-	**34,011,751**
Unallocated Assets	-	-	-	-	369,729	**369,729**
Total Assets	**8,243,073**	**8,856,699**	**16,911,863**	**116**	**369,729**	**34,381,480**
Segment Liabilities	15,780,757	14,156,470	1,321,044	95,978	-	**31,354,249**
Unallocated Equity, Reserves and Liabilities	-	-	-	-	3,027,231	**3,027,231**
Total Equity, Reserves and Liabilities	**15,780,757**	**14,156,470**	**1,321,044**	**95,978**	**3,027,231**	**34,381,480**

4. SEGMENT REPORTING (continued)

Bank

2021 HRK '000	Corporate	Retail	Financial Market	Direct banking	Unallocated	Total
Net Interest Income	139,224	317,836	67,051	-	-	**524,111**
Net Fees and Commissions Income	62,453	97,193	3,390	31,924	(2,084)	**192,877**
Trading and Investment Income	-	-	83,170	-	-	**83,170**
Other Income	7,744	10,563	1,190	-	1,556	**21,053**
Operating Income	**209,422**	**425,592**	**154,801**	**31,924**	**(527)**	**821,211**
General and Administrative Expenses	(32,636)	(138,468)	(6,648)	(38,310)	(226,338)	**(442,399)**
Depreciation and Amortization	-	-	-	-	(67,020)	**(67,020)**
Impairment Losses on Loans and Other Assets	(4,318)	(63,696)	109	-	2,095	**(65,810)**
Provisions for Liabilities and Expenses	-	-	-	-	(307)	**(307)**
Operating Expenses	**(36,954)**	**(202,164)**	**(6,539)**	**(38,310)**	**(291,570)**	**(575,536)**
Profit Before Taxation	**172,468**	**223,428**	**148,262**	**(6,386)**	**(292,097)**	**245,675**
Income Tax	-	-	-	-	(43,568)	**(43,568)**
Profit for the Year	**172,468**	**223,428**	**148,262**	**(6,386)**	**(335,665)**	**202,107**
Segment Assets	6,898,833	9,114,053	11,573,245	168	-	**27,586,299**
Unallocated Assets	-	-	-	-	246,888	**246,888**
Total Assets	**6,898,833**	**9,114,053**	**11,573,245**	**168**	**246,888**	**27,833,187**
Segment Liabilities	11,503,462	12,175,603	1,250,780	56,330	-	**24,986,175**
Unallocated Equity, Reserves and Liabilities	-	-	-	-	2,847,012	**2,847,012**
Total Equity, Reserves and Liabilities	**11,503,462**	**12,175,603**	**1,250,780**	**56,330**	**2,847,012**	**27,833,187**

5. CASH AND RECEIVABLES FROM BANKS

Cash and bank accounts are initially recognized at fair value, and are subsequently measured at amortized cost.

Cash and cash equivalents include cash in hand, cash with the Croatian National Bank, placements with other banks with an original maturity of up to three months or less, and instruments in the offsetting and settlement process

Group and Bank	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
Cash in Hand				
Held by the Group/Bank	951,912	1,324,816	758,032	1,324,816
Cash in transit	192,145	97,728	192,145	97,728
Cheques in the Course of Collection	76	234	76	234
	1,144,133	**1,422,778**	**950,253**	**1,422,778**
Amounts Due from Banks				
Current Accounts with Domestic Banks	5,739	1,705	1,373	1,667
Current Accounts with Foreign Banks	97,633	413,786	84,330	413,785
Transaction Account with the CNB	9,843,932	4,354,286	8,883,506	4,354,286
	9,947,304	**4,769,777**	**8,969,209**	**4,769,737**
Total	**11,091,437**	**6,192,555**	**9,919,462**	**6,192,515**

6. MANDATORY RESERVE WITH CROATIAN NATIONAL BANK

Mandatory reservs with the Croatian National Bank is initially recognized at fair value, and subsequently measured at amortized cost.

Group and Bank	2022 HRK '000	2021 HRK '000
Mandatory Reserve	-	1,326,442
Total	**-**	**1,326,442**

Until 31.12.2022 the mandatory reserve at the Croatian National Bank represented the amounts that were maintained at the CNB due to the prescribed obligation by the Croatian National Bank.

The decision on the mandatory reserve of the Croatian National Bank prescribes a transitional period of adjustment to the regulation of the European Central Bank, which is valid from January 1, 2023, i.e. the introduction of the euro as the national currency. By decision, the mandatory reserve rate was reduced to 5% in August 2022 and to 1% in December 2022 for kuna and foreign currency deposits, loans taken, debt securities issued and other financial liabilities (December 31, 2021: 9.0%).

On the day of the introduction of the euro, the Decision on mandatory reserves ceases to be valid and Regulation (EU) 2021/378 of the European Central Bank (ESB) of January 22, 2021 on the application of provisions on minimum reserves (amendment) (ESB/2021/1) begins to apply.

The obligation to maintain 1% of the mandatory reserve is 100% maintained by the average daily balance of funds in their own foreign euro currency settlement accounts with the Croatian National Bank.

The CNB does not pay fee for the mandatory reserve.

7. LOANS TO AND RECEIVABLES FROM BANKS

Placements with banks are classified as loans and receivables and measured at amortized cost less expected credit losses.

	Group		Bank	
	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
Short-Term Placements with domestic banks	86,556	-	1,383,036	-
Short-Term Placements with Foreign Banks	108,668	277,690	105,961	277,690
Total Short-Term Placements and Loans Banks	**195,224**	**277,690**	**1,488,997**	**277,690**
Guarantee Deposits with Foreign Banks	17,796	13,046	17,796	13,046
Long-Term Placements with domestic banks	-	-	497,277	-
Total Short-Term Placements and Loans Banks	**17,796**	**13,046**	**515,073**	**13,046**
Short-Term Placements with Domestic Non-Banking Financial Institutions	500	500	500	500
Long-Term Placements with Domestic Non-Banking Financial Institutions	-	99	-	99
Long-Term Placements with Domestic Non-Banking Financial Institutions	**500**	**599**	**500**	**599**
Expected Credit Losses on loans to and receivables from banks	**(1,766)**	**(1,504)**	**(10,633)**	**(1,504)**
Accrued Interests Not Yet Due	18	6	815	6
Total Interests Receivable	**18**	**6**	**815**	**6**
Total	**211,771**	**289,837**	**1,994,752**	**289,837**

Guarantee deposits mainly relate to deposits for card operations.

Movements in Expected Credit Losses

	Group		Bank	
	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
Balance at January 1	**1,504**	**1,460**	**1,504**	**1,460**
Merger effect NHB	9,900	-	-	-
Expected Credit Losses on Loans to and Receivables from Banks	(9,638)	44	9,129	44
Balance at December 31	**1,767**	**1,504**	**10,633**	**1,504**

All placements and loans to other banks of the Group and Bank are in stage 1 and during the year there were no transfers between tiers, except for receivables from banks in the amount of HRK 500 thousand, which is in tier 3 and in previous periods a 100% impairment was carried out.

FINANCIAL INSTRUMENTS (NOTE 8, 9, 10, 11)

a) *Classification*

The Bank classifies all financial assets in terms of asset management business model, which is measured as follows:

- Amortized cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit and loss account (FVPL).

Financial liabilities, except for loans granted at interest rate lower than market rates, financial guarantee-based liabilities and financial liabilities measured at FVPL are measured at amortized cost

The classification depends on the intent of the financial instruments'' acquisition. The Board determines the classification of the financial instruments at initial recognition.

Business model assessment

The Bank and the Group determine business models in a manner that best reflects management of financial assets group in order to achieve the business purpose.

Business models of the Bank and the Group are not determined at individual level of each instrument, but at aggregate level of the group of the financial instruments.

Business model assessment is based on reasonably expected scenarios. If cash flows after initial recognition are realized in a manner different than the initially expected, the Bank and the Group do not change the classification of the remaining financial assets held in that business model, but in the future include new information into the assessment of newly approved or purchased financial assets.

In accordance to IFRS 9, the Bank and the Group classify its financial assets in accordance with the following business models:

Business model with the purpose of holding the assets in order to collect contractual cash flows
Financial assets held within this business model are managed with the intent to generate cash flows by collecting contractual payments during the instrument's lifetime. The Bank and the Group manage the assets within the portfolio in order to collect certain cash flows (instead of managing the entire portfolio yield that is realized by holding and also by selling the assets).

Business model with the purpose of collecting cash flows and also by selling the financial assets
Within this business model the Bank and the Group hold financial assets, which purpose is to collect contracted cash flows and also to sell the financial assets. Within this business model the key management personnel makes the decision that the goal of the business model is realized by collecting cash flows and also by selling the financial assets. One of the goals of the business model is managing daily needs related to liquidity in order to keep a certain interest yield profile or that the duration of the financial assets corresponds to duration of liabilities financed by those assets.

Other business models

Financial assets are measured at fair value through profit and loss account if they are not held within the business model with the intent of holding financial assets to collect contracted cash flows or within the business model with the intent of collecting contracted cash flows and also by selling financial assets. The business model which consequently has measurement at fair value through profit and loss account is the one within the Bank and the Group manage the financial assets with the intent of generating cash

FINANCIAL INSTRUMENTS (NOTE 8, 9, 10, 11) (continued)

flows by selling the assets. The Bank and the Group make decision based on fair value of the assets and manage it in order to realize the fair value.

Financial Markets Sector acquires different types of financial assets, whereby the intent for their acquisition is not unambiguous. Within the context of the IFRS 9 application the model of acquisition of financial assets and its placement within business models will be allocated between Financial Markets Sector and Assets and Liabilities Management Office.

Financial Markets Sector when deciding the acquisition of financial assets can place the stated into one of three business models as defined by IFRS 9. Financial Markets Sector more closely describes with the Internal act conditions and manner of acquiring financial assets and its placement into each category in accordance with the chosen business model.

Assets and Liabilities Management committee makes decisions, on recommendation of Assets and Liabilities Management Office, on financial assets acquisitions within the business model holding to collect and sale. Investments related to this business model will arise from the Bank's investments into financial assets with the intent of liquidity management – general strategy. Transactions related to the stated business model are carried out by Financial Markets Sector by directive from Assets and Liabilities Management Office. The Bank places financial instruments within this business model mainly with the purpose of keeping regulatory obligations and prescribed ratios or liquidity reserves in accordance with internal and external limits.

Solely Payments of Principal and Interest test (so called SPPI test)

As the next step of the classification process the Bank and the Group asses contracted conditions of financial assets in order to conclude whether the stated assets have contracted cash flows which are solely payments of principal and interest on unpaid amount of the principal. For purposes of applying this test, the 'principal'' is fair value of financial assets at initial recognition, however that amount of the principal can be changed during the financial assets' lifetime (i.e. in case of paying off the principal). The interest covers the fee for time value of cash, for credit risk related to unpaid amount of the principal during certain period and other basic risks and loan costa and also for profit margin. In order to assess the SPPI test result, the Bank and the Group apply assessment and take into consideration important factors such as the currency of financial assets.

However, if contracted cash flows of financial assets are not solely payments of principal and interest on unpaid amount of the principal, such financial assets are subsequently measured at fair value through profit and loss account.

Financial assets at fair value through profit and loss

This category contains two subcategories: financial instruments held for trading (including derivative financial instruments) and financial instruments the Board had initially recognized at fair value through profit and loss account, or those that have to be recognized at fair value through profit and loss account in accordance with IFRS 9. The Bank recognizes financial assets and liabilities at fair value through profit and loss account when:

- Assets and liabilities are managed, measured or are internally presented at fair value,
- Accounting mismatch is eliminated or significantly reduced by recognition, which would otherwise arise, or
- Assets and liabilities contain certain derivative which significantly changes cash flows which would otherwise arise from the contract.

Financial assets at fair value through profit and loss account include equity securities, debt securities, shares in investment funds and derivative financial instruments held for trading. Financial assets held for

FINANCIAL INSTRUMENTS (NOTE 8, 9, 10, 11) (continued)

trading relate to assets purchased or issued mainly for transactions which realize profit in a short-term.

Changes in fair value of these assets are recognized through net income from trading.

Financial assets at amortized cost

The Bank and the Group measure financial assets at amortized cost if both following conditions are met:

- Financial assets are held within business model with the intent of holding financial assets in order to collect contracted cash flows
- Based on contracted terms of financial assets for certain dates, cash flows arise which are solely payments of principal and interest on unpaid amount of the principal.

Financial assets at amortized cost of the Bank and the Group arise when the Bank and the Group approve cash instruments to customers with no intention of trading with those receivables and include loans and receivables from banks, loans and receivables from customers, as well as mandatory reserve at Croatian National Bank and debt securities.

Financial assets at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income only if both following conditions are met:

- Financial assets are held within business model with the intention of collecting contracted cash flows and also by selling the financial assets
- Based on contract terms of financial assets on certain dates arise cash flows which are solely payments of principal and interest on unpaid amount of the principal.

Gains and losses from financial assets measured at fair value through other comprehensive income are recognized through other comprehensive income, except for expected credit losses and gains and losses from exchange rate differences, up to derecognition of financial assets or its reclassification. If financial assets were derecognized, the cumulative gains or losses previously recognized through other comprehensive income are reclassified from equity into profit and loss account as reclassification adjustment.

Interests calculated by the effective interest rate are recognized in the profit and loss account.

Assets measured at fair value through other comprehensive income cover debt securities.

Investments in an equity instruments which are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, Bank may, at initial recognition, make an irrevocable election to present subsequent changes in the fair value in other comprehensive income. The election is possible for each separate investment. Subsequent changes in the fair value will be presented in other comprehensive income without option of recycling to profit or loss statement.

For these equity instruments Bank will in profit or loss statement recognize dividends from that investments if the entity's right to receive payment of the dividend is established, it is probable that the economic benefits associated with the dividend will flow to the entity and the amount of the dividend can be measured reliably

Other financial liabilities

Other financial liabilities cover all financial liabilities not measured at fair value through profit and loss account.

FINANCIAL INSTRUMENTS (NOTE 8, 9, 10, 11) (continued)

b) Recognition and Derecognition

Purchases and sales of financial assets and financial liabilities at fair value through profit or loss, and financial assets held to maturity and available for sale, are recognized on the settlement date. Loans and receivables and financial liabilities at amortized cost are recognized when advanced to borrowers or received from lenders.

The Bank and Group derecognizes financial instruments (in full or part) when the rights to receive cash flows from the financial instrument have expired or when it loses control over the contractual rights over financial instrument.

This occurs when the Bank and Group transfers substantially all the risks and rewards of ownership to another business entity or when the rights are realized, surrendered or have expired. At full derecognition of financial assets, the difference between book value (determined at derecognition date) and received consideration is recognized in the profit and loss account.

The Bank and Group derecognize financial liabilities only when the financial liability ceases to exist, i.e. when it is discharged, cancelled or has expired. If the terms of a financial liability change, the Bank will cease recognizing that liability and will instantaneously recognize a new financial liability, with new terms and conditions.

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

c) Initial and Subsequent Measurement

Financial assets and liabilities are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

After initial recognition, the Bank and Group measures financial instruments at fair value through profit or loss and financial assets measured at amortized cost and financial assets at fair value through other comprehensive income. Instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are initially recognized at acquisition cost and are subsequently measured applying internal models of fair value estimation.

Loans and receivables and held to maturity investments and financial liabilities not designated at fair value through profit or loss are measured at amortized cost.

Classification of Exposures in Risk Stages

The Bank classifies placements into risk stages depending on the expected loss in the amount of the principal of the placement, and in accordance with the Decision on Classification of Exposures into Risk Stages and the manner of determining credit losses.

All placements that the Bank estimate are not in the default status are classified into risk stage A. Moreover, in accordance with IFRS 9, the Bank places into sub-stage A-1 the placements for which it is determined that after initial recognition the credit risk of each customer's exposure had not significantly increased, and into sub-stage A-2 the placements for which it is determined that after initial recognition the credit risk of customer's exposure had significantly increased. The Bank for these exposures carries out corresponding impairments and make provisions of exposure in the amount equal to expected credit losses in a 12-month period for sub-stage A-1, that is expected credit losses during lifetime for sub-stage A-2. Placements that the Bank estimates are partly recoverable are classified into risk stage B, depending on the loss percentage: into sub-stage B1 (loss is estimated at below 30% of nominal carrying value of the placement), into sub-stage B2 (loss is estimated at between 30% and 70% of nominal carrying value of the placement), and into sub-stage B3 (loss is estimated at above 70%, but below 100% of nominal carrying value of the placement). Placements estimated to be fully irrecoverable are classified into risk stage C.

Expected credit losses
Expected credit loss assessment of the Bank and the Group is based on the International Financial Reporting Standard 9 (IFRS 9), where it analyzes quantitative and qualitative information.

Credit risk analysis is comprehensive, and it is based on multiple indicators, i.e. is a certain indicator important and could its importance compare with other indicators depending on the type of product, financial assets' features, customer etc. However, some indicators are impossible to determine on individual instrument level and in such case the Bank estimates the indicators for certain parts of financial instruments portfolio.

Furthermore, credit quality analysis predicts for every reporting date the comparison of credit quality of financial instrument at the moment of recognition and at the moment of initial recognition or acquisition, all with the intention of determining if the criteria for classification into ''Stage 2'' were met.

The Bank differentiates the criteria in order to mark significant increase of credit risk in accordance with different exposure portfolios:

a) *Exposure portfolio towards retail*
- Existence of due debt over 30 days
- Customer blockade longer than 10 days
- Increase of the debtor's PD in relation to the PD at initial recognition by 200%, provided that the increased PD is greater than 1.00%,
- Debtor's rating belongs to rating class 12,
- Exit from default status,
- Exposure belongs to the debtor for whom early warning signals have been identified
- Approved profit restructured exposure

b) *Exposure portfolio towards legal persons*
- Existence of due debt over 30 days
- Customer blockade longer than 10 days
- Increase of the debtor's PD in relation to the PD at initial recognition by 200%, provided that the increased PD is greater than 1.00%,
- Debtor's rating belongs to rating class 12,
- Exit from default status,
- Exposure belongs to the debtor for whom early warning signals have been identified
- Approved profit restructured exposure

c) *Exposure portfolio towards central states and banking financial institutions*
- Change (decrease) in customer’s credit rating

In addition, while estimating expected losses an important element is also including future factors through macroeconomic scenarios.

Key data for measuring expected credit losses are the following variables:
- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD).

Expected credit losses for exposures (ECL) in ''Stage 1'' are calculated as product of 12-month PD, LGD and EAD.

Expected credit losses for exposures (ECL) in "Stage 2", that is lifetime expected credit losses are calculated as product of lifetime PD, LGD and EAD discounted at reporting date.

In 2021, new client-level PD models for the retail and business segment were developed and implemented. The PD model for entrepreneurs was adopted by the Decision of the Management Board in June, and the PD model for the population segment in December 2021. At the end of 2022, new PD model were adopted for retail and business segment, which, compared to the previous versions adopted during 2021, use an improved calibration formula that achieves a better alignment of the model results with the actual observed frequency of the default rate.

When calculating the lifelong PD for the retail and business segment, the Bank models the risk parameter PD based on transition matrices. The lifetime PD value is the cumulative value of the PD risk parameter limit values depending on the exposure tenor. Exposures to financial institutions and central governments use an external investment rating approach.

The LGD risk parameter is modeled based on the analysis of transactions with default status for exposures to legal entities and individuals. The modeling of the LGD risk parameter for exposures to central governments and financial institutions is based on historical collection rates published by credit rating agencies.

Considering the criteria it applies when estimating the recoverable amount of placements, the Bank divides placements into placements that belong to the portfolio of small loans and placements that do not belong to the portfolio of small loans.

Small loans portfolio placements are total placements and off-balance liabilities to one customer or group of related persons for which the total balance is in the gross amount (without impairment or provision) at estimation date lower than HRK 1,000,000.00.

Modeling of the EAD risk parameter, that is exposure at default depends on the profile of repayment. Calculation of exposure at default is generated monthly and summed annually where necessary.

When estimating expected credit losses for off-balance liabilities, conversion factor 1 is used.

Expected credit losses on individual basis

The recoverable amount of placements that are not classified within the small loan portfolio of the Bank is estimated on an individual basis according to the following criteria:

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

In this respect, credit rating of the debtor and/ or other parties in the loan business (guarantors, co-debtors etc.) is taken into account, as well as days-past-due in debt settlement and type and appraised value of the available collateral. By taking this into consideration, as well as other available information, including info on significant increase in credit risk, the Bank estimates loan recoverability by evaluating future cash flows arising from the placement, which are discounted and compared with placement's book value. Required impairments are determined in this way. Bank complies with regulations from Decision on the Classification of Placements and Off-Balance Sheet Liabilities of Credit Institutions with respect to procedures for restructured placements, placements whose repayment is based on collateral, placements that are not secured by adequate collateral, as well as other regulations regarding eligibility of collateral and appropriate discount factors used for impairment calculations.

From the beginning of 2021, the Bank, in accordance with regulatory provisions contained in the Decision on Amendments to the Decision on Implementation of Regulation (EU) No. 575/2013 in the field of valuation of assets and off-balance sheet items and calculation of regulatory capital and capital requirements and Guidelines on changing the definition of default the obligation under Article 178 of Regulation (EU) No 575/2013) applies materiality thresholds of HRK 750 for the population and HRK 3,750 for the non-population, with a relative threshold of 1% for all segments.

Expected credit losses on portfolio basis

The Bank estimates the recoverable amount of exposures that are classified on a portfolio basis by having regard principally to the debtors' timeliness in meeting their obligations. In arriving at the recoverable amount, the present value of future cash flows from the placements is estimated by reducing the principal by reference to the loan type and the number of days in default.

d) Determination of Fair Value of Financial Instruments

The fair value of quoted financial assets in an active market is based on their closing price. If there is no active market for the financial instrument, or if, due to any other reason, the fair value cannot be reliably measured by the market price, the Bank and Group uses an internal evaluation model for fair value estimation. Such models include the use of prices achieved in recent transactions, by reference to similar financial instruments, and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate. The fair value of non-traded derivatives is estimated at the amount that the Bank and Group would receive or pay to terminate the contract at the reporting date, taking into account current market conditions, its own credit risk and the current creditworthiness of the counterparties.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank and Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account as they value the asset or liability at the measurement date. Fair value for measurement and/ or disclosure purposes in these consolidated and separate financial reports is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16 and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement, which are described as follows:

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

The fair value of derivative instruments that are not traded is estimated based on the amount of receipts or expenses that the Bank and the Group would incur in the event of the sale of the contract on the date of financial reports preparation, taking into account current market conditions, own credit risk and the creditworthiness of other contracting parties.

e) Reclassifications

When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. Bank does not reclassify financial liabilities. Reclassifications between categories depend on the category in which the financial instrument was initially recognized.

If the Bank reclassifies financial assets in accordance it will apply the reclassification prospectively from the reclassification date. The Bank will not restate any previously recognized gains, losses (including impairment gains or losses) or interest.

If the Bank reclassifies a financial asset out of the amortized cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

If an entity reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortized cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

If an entity reclassifies a financial asset out of the amortized cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If an entity reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortized cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortized cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

If an entity reclassifies a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

If an entity reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Other financial instruments

Treasury Bills and Debt Securities

Treasury bills and debt securities that the Bank and Group holds for the purpose of short-term profit taking are classified as at fair value through profit or loss. If the intention is to collect contractual cash flows and for the purpose of long-term profit, financial assets are classified at fair value through other comprehensive income and are carried at fair value. Treasury bills and debt securities that the Bank has the intent and ability to hold to maturity are classified into held to collect contractual cash flows business model.

Equity Securities and Investments in Open-End Investment Funds

Equity securities are classified as at fair value through profit or loss or as assets at fair value through other comprehensive income.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Trading Instruments				
Bonds of the Ministry of Finance	381,243	483,499	291,689	483,499
Corporate bonds and commercial bills	23,750	24,861	23,750	24,861
Listed Debt Securities	**404,993**	**508,361**	**315,439**	**508,361**
Listed Shares of Investment Funds	**69,305**	**80,933**	**69,305**	**80,933**
Listed Equity Securities	**24,919**	**24,706**	**24,919**	**24,706**
	499,217	**614,000**	**409,663**	**614,000**
Loans and receivables from customers				
- corporate	2,444	2,895	2,444	2,895
- retail	2,521	4,457	2,521	4,457
	4,965	**7,352**	**4,965**	**7,352**
Accrued Interests Not Yet Due	4,268	4,634	4,096	4,634
Total	**508,813**	**625,986**	**419,087**	**625,986**

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Listed Debt Securities				
Bonds of the Ministry of Finance	-	3,953,844	-	3,953,844
Corporate Bonds	-	195,219	-	195,219
	-	**4,149,062**	**-**	**4,149,062**
Debt Securities Not Listed				
Treasury Bills of the Croatian Ministry of Finance	**-**	**376,071**	**-**	**376,071**
Equity securities Not Listed				
- Corporate	26,000	25,669	26,000	25,669
	26,000	**25,669**	**26,000**	**25,669**
Listed Equity Securities				
- Corporate	141	22,021	-	22,021
- Non-Banking Financial Institutions	2,547	2,215	2,547	2,215
Expected Credit Losses on Equity Securities	-	(1,033)	-	(1,033)
	2,688	**23,204**	**2,547**	**23,204**
Accrued Interests Not Yet Due	-	27,292	-	27,292
Total	**28,688**	**4,601,297**	**28,547**	**4,601,297**

Since the beginning of 2022, the bank has been faced with several key events that greatly affected its regular operations - acquisition of Nova hrvatska banka p.l.c. (“NHB”), preparations for the introduction of the EURO currency and changes in macroeconomic trends. The acquisition of NHB had a significant strategic and financial impact on the Group's operations, where it is important to mention the channeling of excess liquidity towards NHB (which had a significant impact on hold to collect business model, i.e. the way in which it is evaluated and it is reported to key management - all in accordance with point B4.1.2B of IFRS 9) and the gradual preparation of a new operating target model. As part of the organizational changes, the focus in the management of the portfolio of debt securities is transferred from the management of liquidity reserves, which can be sold on the market if necessary, to a portfolio of debt securities with expected interest income upon maturity.

In recent years, due to the high level of system liquidity, the bank has extremely rarely used the instrument of selling part of the debt securities from the business model hold to collect and sell.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

Taking into account all the above-mentioned factors and the fact that securities from hold to collect and sell business model are not sold for eventual liquidity needs, but are mainly held for the purpose of collecting contracted cash flows, such securities actually meet the criteria of the hold to collect business model. In 2022, the Bank made a decision to change the business model for debt securities held by the Bank for the purpose of collection and sale to the business model hold to collect. By changing the business model, the Bank consequently reclassified the portfolio of securities that were allocated to hold to collect and sell business model to the hold to collect business model, in accordance with point 4.4.1. as part of International Financial Reporting Standard 9 (IFRS9): Financial Instruments. The amount that was reclassified from the portfolio that was valued at fair value through other comprehensive income amounts to HRK 2,879,405 thousand for the Bank and HRK 3,390,752 thousand for the Group.

The fair value of the reclassified asset, in case it remains in the portfolio, would be the financial asset at fair value through other comprehensive income on 31.12.2022 amounted to HRK 2,777,490 thousand for the Bank and HRK 3,288,837 for the Group, while the amount of loss that the Bank would recognize in the fair value reserve for 2022 would be HRK 457,916 thousand, and the Group would be HRK 500,392 thousand. The dividend recognized on equity securities in the portfolio of financial assets at fair value through other comprehensive income in 2022 for the Bank and the Group amounts to HRK 130 thousand.

During 2022, securities in the nominal amount of HRK 1,270,388 thousand in the Bank and HRK 1,286,457 thousand in the Group matured in the portfolio at fair value through other comprehensive income. By selling securities from the aforementioned portfolio, the Bank and the Group realized profit in amount of 2,118. thousand kuna.

On 31.12.2022 the Bank and the Group did not have securities from the portfolio that are valued through other comprehensive income given as collateral in repo transactions.

Movement in Expected Credit Losses for Financial Assets at Fair Value through Other Comprehensive Income

Group			**2022 HRK '000**			**2021 HRK '000**
	Expected Credit Losses Stage 3	**Expected Credit Losses Stage 1 and 2**	**Total**	**Expected Credit Losses Stage 3**	**Expected Credit Losses Stage 1 and 2**	**Total**
At January 1	**1,033**	**21,212**	**22,245**	**1,033**	**14,802**	**15,835**
Increase in Impairment Losses	-	(21,212)	**(21,212)**	-	6,410	**6,410**
Other	(1,033)	-	**(1,033)**	-	-	**-**
At December 31	**-**	**-**	**-**	**1,033**	**21,212**	**22,245**

Bank			**2022 HRK '000**			**2021 HRK '000**
	Expected Credit Losses Stage 3	**Expected Credit Losses Stage 1 and 2**	**Total**	**Expected Credit Losses Stage 3**	**Expected Credit Losses Stage 1 and 2**	**Total**
At January 1	**1,033**	**21,212**	**22,245**	**1,033**	**14,802**	**15,835**
Increase in expected credit losses	-	(21,212)	**(21,212)**	-	6,410	**6,410**
Other	(1,033)	-	**(1,033)**	-	-	**-**
At December 31	**-**	**-**	**-**	**1,033**	**21,212**	**22,245**

All financial assets of the Group and the Bank that are measured at fair value through other comprehensive income are in stage 1 and there has been no transfer between stages in the year.

Expected credit losses on assets valued at fair value through other comprehensive income are presented in note 36.

10. FINANCIAL ASSETS AT AMORTISED COST

	Group 2022 HRK '000	Group 2021 HRK '000	Bank 2022 HRK '000	Bank 2021 HRK '000
Bonds of Ministry of Finance	4,462,821	-	3,914,251	-
Treasury bills of Ministry of Finance	1,129,804	-	1,129,804	-
Bank bonds	226,035	-	226,035	-
Corporative Bonds	154,278	300	154,278	300
Bills of Exchange	2,352	158	-	158
	5,975,290	**458**	**5,424,368**	**458**
Overdue interest	36,305	-	32,088	-
Provisisons for stage 1 and 2	(9,816)	(5)	(9,190)	(5)
Total	**6,001,779**	**453**	**5,447,266**	**453**

Movement in Expected Credit Losses for Financial Assets at Amortized Cost

Group
HRK '000

	2022 Expected Credit Losses Stage 3	2022 Expected Credit Losses Stage 1 and 2	2022 Total	2021 Expected Credit Losses Stage 3	2021 Expected Credit Losses Stage 1 and 2	2021 Total
Balance at January 1	**-**	**5**	**5**	**90**	**26**	**116**
Merger effect NHB	-	3	**3**	-	-	**-**
Increase/ (Decrease) of expected credit losses	-	1,202	**1,202**	(90)	(21)	**(111)**
Recassification effect FVOCI	-	8,606	**8,606**	-	-	**-**
Balance at December 31	**-**	**9,816**	**9,816**	**-**	**5**	**5**

Bank
HRK '000

	2022 Expected Credit Losses Stage 3	2022 Expected Credit Losses Stage 1 and 2	2022 Total	2021 Expected Credit Losses Stage 3	2021 Expected Credit Losses Stage 1 and 2	2021 Total
Balance at January 1	**-**	**5**	**5**	90	26	**116**
Increase/ (Decrease) of expected credit losses	-	1,157	**1,157**	(90)	(21)	**(111)**
Recassification effect FVOCI	-	8,028	**8,028**	-	-	**-**
Balance at December 31	**-**	**9,190**	**9,190**	**-**	**5**	**5**

10. FINANCIAL ASSETS AT AMORTISED COST (continued)

Group

HRK '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	**-**	**460**	**-**	**460**
Arisen or purchased new assets – derecognized or paid off assets (excluding write-offs)	5,375,409	80,587	-	**5,455,996**
Balance at 31 December 2022	**5,375,409**	**81,046**	**-**	**5,456,455**
Expected Credit Losses at 1 January 2022	**-**	**(5)**	**-**	**(5)**
Arisen or purchased new assets – derecognized or paid off assets (excluding write-offs)	(9,080)	(105)	-	**(9,185)**
Expected Credit Losses at 31 December 2022	**(9,080)**	**(111)**	**-**	**(9,190)**

Group

HRK '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	**1,191**	**-**	**900**	**2,091**
Arisen or purchased new assets – derecognized or paid off assets (excluding write-offs)	(1,191)	460	(900)	**(1,631)**
Balance at 31 December 2021	**-**	**460**	**-**	**460**
Expected Credit Losses at 1 January 2021	**(26)**	**-**	**(90)**	**(116)**
Arisen or purchased new assets – derecognized or paid off assets (excluding write-offs)	26	(5)	90	**111**
Expected Credit Losses at 31 December 2021	**-**	**(5)**	**-**	**(5)**

10. FINANCIAL ASSETS AT AMORTISED COST (continued)

Bank

HRK '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	**-**	**460**	**-**	**460**
Arisen or purchased new assets – derecognized or paid off assets (excluding write-offs)	5,375,409	80,587	-	**5,455,996**
Balance at 31 December 2022	**5,375,409**	**81,046**	**-**	**5,456,455**
Expected Credit Losses at 1 January 2022	**-**	**(5)**	**-**	**(5)**
Arisen or purchased new assets – derecognized or paid off assets (excluding write-offs)	(9,080)	(105)	-	**(9,185)**
Expected Credit Losses at 31 December 2022	**(9,080)**	**(111)**	**-**	**(9,190)**

Bank

HRK '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	**1,191**	**-**	**900**	**2,091**
Arisen or purchased new assets – derecognized or paid off assets (excluding write-offs)	(1,191)	460	(900)	**(1,631)**
Balance at 31 December 2021	**-**	**460**	**-**	**460**
Expected Credit Losses at 1 January 2021	**(26)**	**-**	**(90)**	**(116)**
Arisen or purchased new assets – derecognized or paid off assets (excluding write-offs)	26	(5)	90	**111**
Expected Credit Losses at 31 December 2021	**-**	**(5)**	**-**	**(5)**

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS

Loans and receivables from customers are presented net of impairment losses. Purchased loans for which the Bank and Group have the intent and ability to hold to maturity are classified as assets at amortised cost. In accordance with CNB requirements, the amortization of any discounts included within impairment losses is presented in impairment losses.

	Group		Bank	
	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
Short-Term Loans				
Corporate	2,086,381	1,261,430	1,444,721	1,261,430
Retail	1,050,002	948,040	917,656	948,040
Total Short-Term Loans	**3,136,383**	**2,209,470**	**2,362,377**	**2,209,470**
Long-Term Loans				
Corporate	9,516,481	6,094,990	7,215,548	6,094,990
Retail	12,239,078	7,375,842	7,703,015	7,375,842
Total Long-Term Loans	**21,755,559**	**13,470,832**	**14,918,563**	**13,470,832**
Accrued Interests Due	134,676	114,910	112,106	114,910
Accrued Interests Not Yet Due	58,873	9,652	27,135	9,652
Total Gross Loans	**25,085,491**	**15,804,864**	**17,420,181**	**15,804,864**
Expected credit losses for stage 3	**(1,614,926)**	**(1,308,291)**	**(1,293,793)**	**(1,308,291)**
Expected credit losses for stage 1 and 2	**(401,292)**	**(244,772)**	**(252,675)**	**(244,772)**
Total expected credit losses	**(2,016,218)**	**(1,553,063)**	**(1,546,468)**	**(1,553,063)**
Total Net Loans	**23,069,273**	**14,251,800**	**15,873,713**	**14,251,800**
Percentage share of provisions for expected credit losses and reserves in gross loans to customers	8.04%	9.83%	8.88%	9.83%

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS (continued)

Movements in expected credit losses

Movements in the expected credit losses on loans to and receivables from customers were as follows:

Group			2022 HRK '000			2021 HRK '000
	Expected Credit Losses Stage 3	Expected Credit Losses Stage 1 and 2	Total	Expected Credit Losses Stage 3	Expected Credit Losses Stage 1 and 2	Total
Balance at January 1	**1,308,291**	**244,772**	**1,553,063**	**1,328,007**	**252,955**	**1,580,962**
Merger effect NHB	284,473	66,924	**351,397**	-	-	**-**
Increase/(decrease) of expected credit losses	66,013	89,287	**155,300**	66,324	(8,015)	**58,309**
Net Foreign Exchange Loss	(2,330)	194	**(2,136)**	(342)	(168)	**(510)**
Write-Offs	(15,662)	-	**(15,662)**	(111,221)	-	**(111,221)**
Other	(25,859)	114	**(25,744)**	25,523	-	**25,523**
Balance at December 31	**1,614,926**	**401,291**	**2,016,218**	**1,308,291**	**244,772**	**1,553,063**

Bank			2022 HRK '000			2021 HRK '000
	Expected Credit Losses Stage 3	Expected Credit Losses Stage 1 and 2	Total	Expected Credit Losses Stage 3	Expected Credit Losses Stage 1 and 2	Total
Balance at January 1	**1,308,291**	**244,772**	**1,553,064**	**1,328,007**	**252,955**	**1,580,962**
Increase/(decrease) of expected credit losses	(23,092)	7,709	**(15,383)**	66,324	(8,015)	**58,309**
Net Foreign Exchange Loss	(2,207)	194	**(2,013)**	(342)	(168)	**(510)**
Write-Offs	(15,662)	-	**(15,662)**	(111,221)	-	**(111,221)**
Other	26,463	-	**26,463**	25,523	-	**25,523**
Balance at December 31	**1,293,792**	**252,675**	**1,546,468**	**1,308,291**	**244,772**	**1,553,063**

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS (continued)

Expected credit losses analysis for the Group and Bank in 2022 was as follows:

Group

HRK '000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2022	**18,642,561**	**2,052,836**	**2,530,235**	**23,225,632**
New exposures	7,317,429	840,322	41,849	**8,199,599**
Derecognized or paid off assets (excluding write-offs)	(4,986,563)	(791,318)	(479,212)	**(6,257,093)**
Transfer into Stage 1	513,799	(494,892)	(18,907)	-
Transfer into Stage 2	(1,240,997)	1,434,438	(193,441)	-
Transfer into Stage 3	(203,221)	(137,165)	340,386	-
Modification based changes (do not result with derecognition)	(3,094)	(868)	388	**(3,574)**
Write-offs	(23)	(13)	(79,038)	**(79,073)**
Balance at 31 December 2022	**20,039,891**	**2,903,340**	**2,142,259**	**25,085,491**
Expected credit losses at 1 January 2022	**(174,239)**	**(137,458)**	**(1,592,764)**	**(1,904,460)**
New exposures	(62,010)	(24,250)	(5,208)	**(91,468)**
Derecognized or paid off assets (excluding write-offs)	14,942	14,793	86,149	**115,884**
Transfer into Stage 1	(45,484)	38,010	7,474	-
Transfer into Stage 2	25,237	(35,223)	9,985	-
Transfer into Stage 3	4,333	16,684	(21,017)	-
Change in expected credit loss	59,567	(96,206)	(167,538)	**(204,177)**
Write-offs	3	8	67,992	**68,003**
Expected credit losses at 31 December 2022	**(177,650)**	**(223,642)**	**(1,614,926)**	**(2,016,218)**

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS (continued)

Bank

HRK '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2022	**12,383,527**	**1,277,552**	**2,143,784**	**15,804,863**
New exposures	4,186,411	508,537	41,849	**4,736,797**
Derecognized or paid off assets (excluding write-offs)	(2,252,137)	(407,856)	(440,473)	**(3,100,467)**
Transfer into Stage 1	380,191	(367,301)	(12,890)	-
Transfer into Stage 2	(869,648)	1,052,223	(182,574)	-
Transfer into Stage 3	(60,777)	(63,010)	123,788	-
Modification based changes (do not result with derecognition)	(3,094)	(868)	388	**(3,574)**
Write-offs	(23)	(13)	(17,403)	**(17,439)**
Balance at 31 December 2022	**13,764,449**	**1,999,263**	**1,656,469**	**17,420,181**
Expected credit losses at 1 January 2022	**(136,085)**	**(108,687)**	**(1,308,291)**	**(1,553,063)**
New exposures	(54,406)	(19,293)	(5,208)	**(78,907)**
Derecognized or paid off assets (excluding write-offs)	14,942	14,793	72,017	**101,752**
Transfer into Stage 1	(30,056)	28,923	1,133	-
Transfer into Stage 2	20,653	(40,347)	19,694	-
Transfer into Stage 3	2,664	7,702	(10,366)	-
Change in expected credit loss	62,528	(16,018)	(78,433)	**(31,922)**
Write-offs	3	8	15,662	**15,673**
Expected credit losses at 31 December 2022	**(119,757)**	**(132,918)**	**(1,293,792)**	**(1,546,467)**

Of which purchased or issued credit impaired financial assets (POCI) for the Group and Bank were as follows:

HRK '000	POCI
Balance at 1 January 2022, net	**153,660**
Arisen or purchased new assets	6,541
Repaid assets (excluding write-offs)	(123,339)
Amounts written off	84
Balance at 31 December 2022, net	**36,947**

11. LOANS TO AND RECEIVABLES FROM CUSTOMERS (continued)

Expected credit losses analysis for the Group and Bank in 2021 was as follows:

HRK '000	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2021	**13,412,293**	**763,209**	**2,128,229**	**16,303,730**
New exposures	3,112,066	340,339	64,966	**3,517,371**
Derecognized or paid off assets (including derecognition)	(3,353,479)	(297,794)	(248,863)	**(3,900,136)**
Transfer into Stage 1	64,536	(57,579)	(6,957)	**-**
Transfer into Stage 2	(647,041)	678,510	(31,469)	**-**
Transfer into Stage 3	(206,621)	(148,394)	355,015	**-**
Modification based changes (do not result with derecognition)	1,908	(592)	(5,644)	**(4,329)**
Write-offs	(134)	(145)	(111,494)	**(111,773)**
Balance at 31 December 2021	**12,383,527**	**1,277,552**	**2,143,784**	**15,804,864**
Expected credit losses at 1 January 2021	**(172,023)**	**(80,512)**	**(1,328,426)**	**(1,580,961)**
New exposures	(26,956)	(16,060)	(8,355)	**(51,371)**
Derecognized or paid off assets (including derecognition)	50,150	13,799	58,705	**122,654**
Transfer into Stage 1	(5,534)	4,785	749	**-**
Transfer into Stage 2	19,784	(21,488)	1,705	**-**
Transfer into Stage 3	5,313	13,964	(19,277)	**-**
Change in expected credit loss	(6,819)	(23,174)	(124,613)	**(154,606)**
Write-offs	-	-	111,221	**111,221**
Expected credit losses at 31 December 2021	**(136,085)**	**(108,687)**	**(1,308,291)**	**(1,553,064)**

Of which purchased or issued credit impaired financial assets (POCI) for the Bank were as follows:

HRK '000	POCI
Balance at 1 January 2021, net	**176,014**
Arisen or purchased new assets	690
Repaid assets (excluding write-offs)	(22,950)
Amounts written off	(93)
Balance at 31 December 2021, net	**153,660**

12. ASSETS HELD FOR SALE

The Bank and Group initially recognize (classify) non-current assets as assets held for sale if its value be through sale, rather than used for the purpose of conducting business activities through depreciation. Such assets are classified at the lower of carrying amount or fair market value less costs to sell.

Subsequent measurement of assets held for sale is carried at the lower of carrying value and the current fair market value less costs to sell.

In order for fixed assets to be classified as assets held for sale, the following conditions must be met:

- the property must be immediately available for sale in its current condition (with conditions that are usual and common when taking over)
- there should be a very high possibility of sale
- there should be initiated an active programme to locate a buyer
- the offered sale price must be acceptable in relation to its current fair market value
- the sale should be determined as possible within one year from the date of asset classification, subject to exceptional circumstances beyond the Bank's control and where there is sufficient evidence that the Bank will act in accordance with the sale program and will not abandon the plan.

In case of events that may extend the period to perform the sale of the property does not preclude the classification of assets as held for sale if the circumstances beyond the control of the Bank and Group occur and if there is evidence that the Bank and Group will continue in line with the plans to continue selling the same.

The Bank and Group does not perform depreciation of assets held for sale. Impairment losses arising on the subsequent measurement of assets is recorded in the P&L report of the Bank and Group. Subsequent gains from increase in the fair value of previously impaired assets will be recognized in the P&L report at the time of sale. If it is determined that the non-current assets classified as held for sale do not meet the criteria for initial recognition of the Bank and Group does not recognize those assets as assets held for sale. Bank and Group does not recognize assets held for sale in the event that such property is sold. Gain or loss on sale of assets held for sale are recognized in the P&L report.

During 2021, the Bank transferred investments in real estate in the amount of HRK 9,200 thousand (Note 15) to assets held for sale and the mentioned property was sold during the first quarter of 2022.

Movement in Asset held for sale was as follows:

	Group		Bank	
	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
Balance at 1 January	**9,200**	**-**	**9,200**	**-**
Transfer from investment property to assets held for sale	-	9,200	-	9,200
Transfer from investment property	32,001	-	32,001	-
Sale	(41,201)	-	(41,201)	-
Balance at 31 December	**-**	**9,200**	**-**	**9,200**

13. INVESTMENTS IN SUBSIDIARIES

Subsidiaries

Subsidiaries are all the companies managed by the Bank. Subsidiaries are consolidated, i.e. they cease to be consolidated from the moment the Bank acquires or loses control over them. Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated income statement and other comprehensive income from the date on which the Bank acquired control until the date of termination of control. Income and expenses of Jadranska banka p.l.c. (JABA) are included in the consolidated profit and loss account from the acquisition date. In separate financial reports of the Bank, investments into subsidiaries are stated at acquisition cost less impairment, if any. Accounting policies of subsidiaries are adjusted as needed to ensure accordance with the Group's policies.

Business combinations

Acquistion method is used for posting acquisitions of companies by the Group
Acquisition date is defined as a date at which the acquirer gains control over the acquire.
The fee transferred for the acquisition of the subsidiary consists of:

- fair value of transferred assets
- liabilities incurred towards former owners of the acquired business
- equity shares issued by the Group
- the fair value of any asset or liability arising from the contingent consideration agreement, and
- the fair value of any prior equity interest in the subsidiary.

Acquired identifiable assets and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, initially measured at fair values on the date of acquisition. Transaction costs related to the acquisition and arising from the issuance of equity instruments are deducted from the capital; transaction costs arising from the debt issuance as part of a business merger are deducted from the book value of the debt, and all other transaction costs related to the acquisition are recognized as an expense.

The excess of the consideration transferred, the amount of any minority (non-controlling) share in the acquired entity, and the fair value on the date of acquisition of any previous ownership share in the acquired entity above the fair value of the acquired net identifiable assets, is reported as goodwill.

If these amounts are less than the fair value of the net identifiable assets of the acquired business, the difference is recognized directly in the income statement as a bargain purchase after the Management Board reassesses whether it has identified all acquired assets and all assumed liabilities and contingent liabilities and reviews the adequacy of their measurement

a) The Bank's subsidiaries are as follows:

	Industry	Domicile	Ownership at December 31, 2022	Ownership at December 31, 2021
HPB Invest Ltd	Investment Fund Management	Croatia	100%	100%
HPB-nekretnine Ltd	Real Estate Agency and Construction	Croatia	100%	100%
Nova hrvatska banka p.l.c.	Financial services	Croatia	100%	-
Pronam Nekretnine Ltd.	Real Estate Agency and Construction	Croatia	100%	-

13. INVESTMENTS IN SUBSIDIARIES (continued)

b) Investments in Subsidiaries that are fully consolidated in financial reports of the Group, are as follows:

	2022 HRK '000	2021 HRK '000
HPB Invest Ltd	5,000	5,000
HPB-nekretnine Ltd	4,761	4,761
Pronam Nekretnine Ltd.	20,344	-
Nova hrvatska banka p.l.c.	71,000	-
Total	**101,105**	**9,761**

Movements of Investments in Subsidiaries:

ACQUISITION OF NOVA HRVATSKA BANKA P.L.C. (SBERBANK P.L.C. IN RESOLUTION)

The Bank acquired 100% of ''Sberbank p.l.c. in resolution'' shares (now Nova hrvatska banka p.l.c. ("NHB")). Sberbank p.l.c., Croatia fell into liquidity problems as a consequence of war in Ukraine along with the increased fear among depositors which started withdrawing deposits.

On 27 February 2022, the Single Resolution Board determined that Sberbank Europe AG in Austria and its subsidiaries in Slovenia and Croatia were failing, confirming the previous European Central Bank's assessment.

On 1 March 2022, the Single Resolution Board adopted resolution decisions for Slovenian and Croatian Sberbank subsidiaries. It has been decided that the resolution is to be carried out by sale. Until 14 April 2022, Sberbank p.l.c. was in resolution process, meaning the coordination of its operations were assumed by the Resolution Management Board.

At its session held on 13 April 2022, the Council of the Croatian National Bank ("CNB"), issued a decision ending the resolution process in ''Sberbank p.l.c. in resolution''. Under the instruction of the Single Resolution Board ("SRB"), the CNB transfers 615,623 shares representing 100% of the share capital of Sberbank p.l.c. to Hrvatska poštanska banka p.l.c. for the cash consideration of EUR 9.6 million/HRK 71 million which is determined by the SRB. Furthermore, CNB Council decided to grant prior approval to the appointments of Management Board of Sberbank – in resolution, effective from 14 April 2022.

HPB took control over the new member of HPB Group from 14 April 2022 and it started to operate as Nova hrvatska banka p.l.c.

At the time of publication of this report, the merger process of Nova hrvatska banka p.l.c. was initiated and the completion of the legal merger is expected at the beginning of H2 2023.

Details of the purchase consideration, the net assets acquired and gain on bargain purchase are as follows:

	HRK 000
Purchase consideration - Cash paid	71,000
Fair value of net asset acquired	1,089,765
Gain on bargain purchase	**1,018,765**

The purchase fee was determined by the Decision of the Single Resolution Board when adopting the resolution scheme for Sberbank p.l.c. Since the purchase consideration is below the fair value of the net assets acquired, the transaction resulted in a bargain purchase.

Gain on bargain purchase in the amount of HRK 1,018, 765 thousand is recognised in the profit and loss in 'Gain on bargain purchase'.

13. INVESTMENTS IN SUBSIDIARIES (continued)

Fair value of net asset acquired

	HRK '000
Cash and Cash Equivalents	226,300
Amounts Due from Banks	937,076
Mandatory Reserve with Croatian National Bank	434,411
Loans and Receivables from Banks	2,972
Financial Assets at Fair Value	664,703
Loans and Receivables from Customers	7,078,220
Deferred tax assets	45,698
Other Assets	25,726
Property, Equipment and asset with right of use	92,036
Intangible Assets	103,363
Deposits from Banks	(3,333,940)
Customer Deposits	(4,545,170)
Borrowings	(204,712)
Provisions for commitments and contingencies	(247,580)
Other Liabilities	(189,338)
Fair value of net asset acquired	**1,089,765**

Loans and Receivables

	Amounts Due from Banks	Loans and Receivables from Banks	Loans and Receivables from Customers
	HRK '000	HRK '000	HRK '000
Gross contractual amounts of Loans and Receivables from Customers	937,515	2,972	7,428,000
Less: the best estimate at the acquisition date of the contractual cash flows not expected to be collected	(439)	-	(349,780)
Fair value of Loans and Receivables from Customers	**937,076**	**2,972**	**7,078,220**

Purchase consideration – cash outflow

	HRK '000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	71,000
Less: Balances acquired – Cash (Cash and Cash Equivalents and Amounts Due from Banks)	1,166,348
Net inflow of cash – investing activities	**1,095,348**

The acquired subsidiary contributed to the Group interest income at the effective interest rate and income from fees and commissions in the amount of HRK 237,853 thousand and HRK 64,722 thousand, respectively, and reduced profits for the period from the date of acquisition to December 31, 2022 by HRK 251,501 thousand. If the acquisition had taken place on January 1, 2022, the Group's interest income at the effective interest rate and fees and commissions for 2022 would have amounted to HRK 856,568 thousand and HRK 609,412 thousand, respectively, and the profit for 2022 would have been HRK 958,376 thousand.

13. INVESTMENTS IN SUBSIDIARIES (continued)

ACQUISITION OF COMPANY PRONAM NEKRETNINE LTD.

The Bank acquired a 100% ownership share in the company Pronam Nekretnine Ltd. July 4, 2022. At the time of publication of this report, the merger process of Pronam Nekretnine Ltd. was initiated and completion of the merger is expected by the end of the first quarter of 2023. By purchasing shares in the company Pronam Nekretnine Ltd. and claims that Sberbank Europe AG (SBAG) has against the companies Pronam Nekretnine Ltd. and Nova hrvatska banka p.l.c. the credit-deposit relationship of NHB, and thus HPB Group with SBAG, was completed.

Details of the purchase consideration, the net assets acquired and goodwil are as follows:

	HRK '000
Purchase consideration - Cash paid	20,345
Fair value of net asset acquired	20,332
Goodwil	**(13)**

Goodwill in the amount of HRK 13 thousand is recognized in the statement of financial position under the item intangible assets.

Fair value of net asset acquired

	HRK '000
Cash and cash equivalentd	1,535
Receivables from customers and other receivables	636
Investment property	57,689
Long-term tangible and intangible assets	394
Deferred tax assets	94
Liabilities to suppliers and other liabilities	(117)
Loan liabilities	(39,899)
Fair value of net asset acquired	**20,332**

Purchase consideration – cash outflow

	HRK '000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	20,345
Less: Balances acquired – Cash and Cash Equivalents	1,535
Net outflow of cash – investing activities	**18,810**

During 2022, for the purposes of the request for merger, the financial statements of the company Pronam as of 31 August 2022 were audited, which falls under non-auditing services in accordance with Article 5, Paragraph 1 of EU Regulation No. 537/2014.

14. PROPERTY, EQUIPMENT AND ASSETS WITH THE RIGHT TO USE

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

Recognition and Measurement

An item of property whose fair value can be measured reliably is subsequently carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The fair value of land and buildings is determined by the independent professional valuator.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Depreciation is recognized in the P&L report on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

Equipment is measured a st, less accumulated depreciation and accumulated impairment losses.

The estimated useful lives are as follows:

	2022	2021
Buildings	40 years	40 years
Computers	3 years	3 years
Furniture and Equipment	2-4 years	2-4 years
Motor Vehicles	5 years	5 years
Other Assets*	10 years	10 years
Leasehold improvements**	4-10 years	4-10 years

* Other assets refer to air conditioning and heating equipment
** Leasehold improvements are amortized in line with the duration of lease contract, average period of amortization is 5 to 7 years.

14. PROPERTY, EQUIPMENT AND ASSETS WITH THE RIGHT TO USE (continued)

Depreciation methods and useful lives are reassessed at reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are included in the Profit and Loss Statement.

Impairment of Non-Financial Assets

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

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

14. PROPERTY, EQUIPMENT AND ASSETS WITH THE RIGHT TO USE (continued)

Group

2022 HRK '000	Land and Buildings	Computers, Equipment and Motor Vehicles	Investment in other's property	Assets Under Constru-ction	Right of Use: Building and land	Right of Use: Computers, equipment and motor vehicles	Total
Acquisition cost							
Balance at January 1, 2022	**230,044**	**202,523**	**90,108**	**1,461**	**122,168**	**36,203**	**682,507**
Merger effect NHB	13,968	80,423	39,107	671	84,973	1,989	221,131
Merger effect Pronam	98,200	2,377	-	-	-	-	100,577
Increase / Revaluation of land	600	-	-	-	-	-	600
Increase/ Revaluation of buildings	10,868	-	-	-	-	-	10,868
Additions	-	3,000	782	49,531	15,119	555	68,988
Write-offs and other reductions	-	(32,832)	(5,129)	-	(10,092)	(458)	(48,510)
Other changes	-	-	-	-	(41,161)	-	(41,161)
Transferred into Use	19,516	23,208	525	(43,281)	-	-	(32)
Balance at December 31, 2022	**373,196**	**278,699**	**125,393**	**8,384**	**171,007**	**38,289**	**994,968**
Accumulated Depreciation							
Balance at January 1, 2022	**(97,332)**	**(174,515)**	**(62,702)**	**(276)**	**(55,598)**	**(14,820)**	**(404,968)**
Merger effect NHB	(5,735)	(63,745)	(30,908)	-	(27,589)	(1,118)	(129,095)
Merger effect Pronam	(40,511)	(1,983)	-	-	-	-	(42,494)
Depreciation Cost	(5,420)	(19,212)	(8,406)	-	(23,270)	(5,412)	(61,721)
Impairment	-	(5,111)	(1,034)	(469)	-	-	(6,613)
Increase	-	(1,163)	(592)	-	-	-	(1,755)
Other changes	-	-	-	-	10,535	-	10,535
Write offs	-	30,742	4,556	469	1,851	438	38,056
Balance at December 31, 2022	**(148,999)**	**(234,986)**	**(99,086)**	**(276)**	**(94,070)**	**(20,913)**	**(598,053)**
Net Book Value							
Balance at January 1, 2022	**132,712**	**28,008**	**27,406**	**1,461**	**66,570**	**21,382**	**277,538**
Balance at December 31, 2022	**224,197**	**43,713**	**26,308**	**8,383**	**76,937**	**17,376**	**396,914**

14. PROPERTY, EQUIPMENT AND ASSETS WITH THE RIGHT TO USE (continued)

Group					**Right of Use**		
2021 HRK '000	**Land and Buildings**	**Computers, Equipment and Motor Vehicles**	**Investment in other's property**	**Assets Under Constru-ction**	**Building and land**	**Computers, equipment and motor vehicles**	**Total**
Acquisition cost							
Balance at January 1, 2021	**211,768**	**200,822**	**87,252**	**1,431**	**130,755**	**27,668**	**659,696**
Increase / Revaluation of land	554	-	-	-	-	-	**554**
Decrease/ Revaluation of land	(650)	-	-	-	-	-	**(650)**
Increase/ Revaluation of buildings	6,050	-	-	-	-	-	**6,050**
Decrease / Revaluation of building	(83)	-	-	-	-	-	**(83)**
Additions	-	91	-	26,398	131	8,582	**35,202**
Write-offs and other reductions	(1,088)	(11,265)	(620)	-	(8,718)	(47)	**(21,738)**
Transferred into Use	13,493	12,875	3,476	(26,368)	-	-	**3,476**
Balance at December 31, 2021	**230,044**	**202,523**	**90,108**	**1,461**	**122,168**	**36,203**	**682,507**
Accumulated Depreciation							
Balance at January 1, 2021	**(93,189)**	**(172,374)**	**(57,380)**	**-**	**(36,996)**	**(9,388)**	**(369,327)**
Depreciation Cost	(4,832)	(13,237)	(5,914)	-	(18,602)	(5,433)	**(48,018)**
Write-offs	689	11,096	592	-	-	-	**12,377**
Balance at December 31, 2021	**(97,332)**	**(199,924)**	**(66,590)**	**-**	**(55,407)**	**(14,820)**	**(449,867)**
Net Book Value							
Balance at J anuary 1, 2021	**118,579**	**28,448**	**29,872**	**1,431**	**93,759**	**18,280**	**290,368**
Balance at December 31, 2021	**132,712**	**28,008**	**27,406**	**1,461**	**66,570**	**21,382**	**277,538**

Assets under construction as of December 31, 2022 refer to investment in equipment and construction facilities at purchase price value of HRK 1,461 thousand (2021: HRK 1,431 thousand). Book value of owned land of the Group as of December 31, 2022 is HRK 19,655 thousand (2021: HRK 19,055 thousand).

14. PROPERTY, EQUIPMENT AND ASSETS WITH THE RIGHT TO USE (continued)

Bank

2022 HRK '000	Land and Buildings	Computers, Equipment and Motor Vehicles	Investment in other's property	Assets Under Constru-ction	Right of Use: Building and land	Right of Use: Computers, equipment and motor vehicles	Total
Acquisition cost							
Balance at January 1, 2022	**228,547**	**202,085**	**90,136**	**1,461**	**121,110**	**36,203**	**679,542**
Increase / Revaluation of land	600	-	-	-	-	-	**600**
Decrease/ Revaluation of land	12,107	-	-	-	-	-	**12,107**
Additions	-	2,963	592	44,906	13,087	217	**61,765**
Write-offs and other reductions	-	(7,044)	(5,129)	-	(8,214)	-	**(20,387)**
Transferred into Use	19,516	19,074	556	(39,146)	-	-	**-**
Balance at December 31, 2022	**260,770**	**217,078**	**86,155**	**7,221**	**125,983**	**36,420**	**733,627**
Accumulated Depreciation							
Balance at January 1, 2022	**(97,332)**	**(174,141)**	**(62,702)**	**-**	**(55,003)**	**(14,820)**	**(404,000)**
Depreciation Cost	(5,238)	(13,433)	(5,802)	-	(15,882)	(5,084)	**(45,439)**
Additions	-	(1,163)	(592)	-	-	-	**(1,755)**
Write-offs	-	7,020	4,525	-	-	-	**11,545**
Balance at December 31 2022	**(102,570)**	**(181,717)**	**(64,572)**	**-**	**(70,885)**	**(19,904)**	**(439,649)**
Net Book Value							
Balance at December 31, 2022	**131,215**	**27,944**	**27,434**	**1,461**	**66,107**	**21,382**	**275,543**
Balance at January 1, 2022	**158,200**	**35,360**	**21,583**	**7,221**	**55,098**	**16,515**	**293,978**

14. PROPERTY, EQUIPMENT AND ASSETS WITH THE RIGHT TO USE (continued)

Bank

2021 HRK '000	Land and Buildings	Computers, Equipment and Motor Vehicles	Investment in other's property	Assets Under Constru-ction	Right of Use Building and land	Right of Use Computers, equipment and motor vehicles	Total
Acquisition cost							
Balance at January 1, 2021	**210,271**	**200,398**	**87,252**	**1,431**	**129,774**	**27,668**	**656,795**
Increase / Revaluation of land	554	-	-	-	-	-	**554**
Decrease / Revaluation of building	(650)	-	-	-	-	-	**(650)**
Decrease/ Revaluation of land	6,050	-	-	-	-	-	**6,050**
Increase/ Revaluation of buildings	(83)	-	-	-	-	-	**(83)**
Additions	-	-	-	29,874	-	8,582	**38,456**
Write-offs and other reductions	(1,088)	(11,188)	(592)	-	(8,664)	(47)	**(21,579)**
Transferred into Use	13,493	12,875	3,476	(29,844)	-	-	**-**
Balance at December 31, 2021	**228,547**	**202,085**	**90,136**	**1,461**	**121,110**	**36,203**	**679,543**
Accumulated Depreciation							
Balance at January 1, 2021	**(93,189)**	**(172,001)**	**(57,380)**	**-**	**(36,608)**	**(9,388)**	**(368,567)**
Depreciation Cost	(4,832)	(13,181)	(5,914)	-	(18,395)	(5,433)	**(47,755)**
Write-offs	689	11,041	592	-			**12,322**
Balance at December 31, 2021	**(97,332)**	**(174,141)**	**(62,702)**	**-**	**(55,003)**	**(14,820)**	**(404,000)**
Net Book Value							
Balance at December 31, 2021	**117,082**	**28,397**	**29,872**	**1,431**	**93,165**	**18,280**	**288,228**
Balance at January 1, 2021	**131,215**	**27,944**	**27,434**	**1,461**	**66,107**	**21,382**	**275,543**

Assets under constructions as at 31 December 2022 relate to investments in equipment and buildings at a cost of HRK 7,221 thousand (2021: HRK 1,461 thousand). The carrying amount of land owned by the Bank as at 31 December 2022 was HRK 19,655 thousand (2021: HRK 19,055 thousand).

There is no mortgage or other lien on the property owned by the Bank in favor of other parties.

Right of Use Asset (RoU) as at 31 December 2022 amounted to HRK 71,613 thousand (2021: HRK 87,489 thousand). Assets with the right of use are recognized in the entity's functional currency and depreciated on a straight-line basis over the term of the lease.

15. INVESTMENT PROPERTY

Investment property

Investment property include the Bank's investments in real estate with the intention of making a profit on the increase in value and / or earning from the lease. Real estate investments are initially recognized at cost, including transaction costs. All investments in real estate are valued at fair value. The fair value of such assets is estimated annually on the basis of an independent valuer's estimate,and other relevant market factors and any gain or impairment loss from the change in fair value is recognized in the income statement as occurred. An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Repossessed asset in exchange for uncollected receivables

The Bank and Group initially recognize repossessed asset in accordance with IAS 40 “Investment Property” and account for it as described in part Investment property. In case that repossessed asset will be intended for sale and it meet the criteria of relevant IFRS 5 “Non-current Assets Held for Sale”, the asset will be recognized and accounted for as long-term tangible asset held for sale.

Only exceptionally, if repossessed asset will be used in regular business activities of the Bank and the Group, it can be decided, at acquisition, that the asset will be put in use and accounted for in accordance with IAS 16 “Property, plant and equipment”, as described in part Property and Equipment.

At initial recognition of repossessed asset in exchange for uncollected receivables, the acquisition cost will be considered the lower amount between the net book value of the financial asset, whereby the foreclosed asset or the asset received for the purpose of debt payment and the fair value of the acquired asset minus the costs of sale.

	Group		Bank	
	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
Balance at January 1	**67,642**	**73,430**	**60,629**	**65,993**
Additions	2,904	4,382	2,904	4,382
Reclassification into assets held for sale	(32,001)	(9,200)	(32,001)	(9,200)
Sale	(3,676)	(2,873)	(155)	(2,449)
Change in Fair Value	12,767	1,903	12,980	1,903
Balance at December 31	**47,636**	**67,642**	**44,357**	**60,629**

15. INVESTMENT PROPERTY (continued)

Assets taken over in exchange for uncollected receivables classified as investments in real estate as at 31.12.2022. has a gross book value of HRK 129,564 thousand. The value adjustment based on the assessment of value with the application of the discount factor of marketability related to real estate investment amounts to HRK 84,798 (2021: HRK 111,729 thousand), so the net book value of these assets amounts to HRK 44,357 thousand (2021: HRK 60,629 thousand).

As of December 31, 2022 and December 31, 2021, all assets are in level 3 of the hierarchy of fair value measure.s During the year there were no items that would be reclassified from level 3 indicator to level 1 indicator or vice versa by hierarchy of fair value measures.

Rental income amounted to HRK 561 thousand (2021: HRK 498 thousand). The maintenance costs of the acquired property in 2022 amounted to HRK 670,000.

The effects of the change in fair value are shown in position investment property in note 36.

Disclosure of the investment valuation in real estate is presented in Note 3. Property is assessed in accordance with the Real Estate Estimates Act (OG 78/2015) and the related Property Ordinance (NN 105/2015), according to law prescribed and appropriate methods consideration is given to a number of factors in determining its current market value. The valuation method has not changed during the year.

16. INTANGIBLE ASSETS

Intangible assets are carried at cost less accumulated amortization and impairment. Development costs are capitalized if all the requirements specified in IAS 38 "Intangible Assets" are met.

The Bank and Group intends to capitalize internal employee project costs in the future under a condition of meeting requirements by the IAS 38. Durability of the mentioned intangible assets will correspond to the estimated useful life and its future economic benefits.

Amortization is provided on a straight-line basis over the estimated useful life of an intangible asset. Maintenance costs are recognized as an expense when they are incurred.

Depreciation methods and useful lives are reassessed at reporting date. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are included in the Profit and Loss Statement.

Amortization of intangible assets is provided on a straight-line basis over the estimated useful life of an asset as follows:

	2022	2021
Software	3-10 years	3-10 years
Licenses	3-10 years	3-10 years

Group

2022 HRK '000	Software	Licenses	Assets Under Construction	Goodwill	Total
Acquisition cost					
Balance as at January 1, 2021	**305,825**	**75,660**	**9,948**	**-**	**391,433**
Merger effect NHB	179,558	-	34,418	-	**213,975**
Increase	329	-	60,454	13	**60,797**
Transferred into Use	63,713	4,153	(67,866)	-	**-**
Amounts Written-Off	(59,742)	-	(3,913)	-	**(63,655)**
Balance as at December 31, 2022	**489,683**	**79,813**	**33,041**	**13**	**602,550**
Accumulated Amortization					
Balance as at January 1, 2022	**(264,048)**	**(61,436)**	**-**	**-**	**(325,485)**
Merger effect NHB	(110,612)	-	-	-	**(110,612)**
Depreciation cost	(30,544)	(5,911)	-	-	**(36,455)**
Impairment	(53,949)	-	-	-	**(53,949)**
Amounts Written-Off	59,742	-	-	-	**59,742**
Balance as at December 31, 2022	**(399,411)**	**(67,347)**	**-**	**-**	**(466,758)**
Net Book Value					
Balance as at January 1, 2022	**41,777**	**14,224**	**9,948**	**-**	**65,948**
Balance as at December 31, 2022	**90,272**	**12,466**	**33,041**	**13**	**135,791**

16. INTANGIBLE ASSETS (continued)

Group

2021 HRK '000	Software	Licenses	Assets Under Construction	Total
Acquisition cost				
Balance as at January 1	**278,723**	**68,807**	**18,636**	**365,966**
Increase	-	-	23,998	23,998
Transferred into Use	25,620	7,053	(32,673)	-
Balance as at December 31	**304,343**	**75,660**	**9,961**	**389,964**
Accumulated Amortization				
Balance as at January 1	**(249,937)**	**(56,166)**	**-**	**(306,103)**
Depreciation cost	(14,111)	(5,271)	-	(19,382)
Balance as at December 31	**(264,048)**	**(61,437)**	**-**	**(325,485)**
Net Book Value				
Balance as at January 1	**28,786**	**12,441**	**18,636**	**59,863**
Balance as at December 31	**40,295**	**14,223**	**9,961**	**64,479**

Assets under construction as at 31 December 2022 mainly refer to investments into the application software and investments in other assets at purchased cost in the amount of HRK 9,961 thousand (2021: HRK 18,636 thousand), which are under construction due to future use by the Group.

16. INTANGIBLE ASSETS (continued)

Bank

2022 HRK '000	**Software**	**Licenses**	**Assets Under Construction**	**Total**
Acquisition cost				
Balance as at January 1	**296,576**	**75,660**	**9,948**	**382,184**
Increase	-	-	37,127	**37,127**
Transferred into Use	14,519	4,153	(18,672)	**-**
Amounts Written-Off	(23)	-	-	**(23)**
Balance as at December 31	**311,072**	**79,813**	**28,403**	**419,288**
Accumulated Amortization				
Balance as at January 1	**(254,862)**	**(61,436)**	**-**	**(316,298)**
Depreciation cost	(18,705)	(5,911)	-	**(24,616)**
Amounts Written-Off	23	-	-	**23**
Balance as at December 31	**(273,544)**	**(67,347)**	**-**	**(340,891)**
Net Book Value				
Balance as at January 1	**41,714**	**14,224**	**9,948**	**65,886**
Balance as at December 31	**37,528**	**12,466**	**28,403**	**78,397**

Bank

2021 HRK '000	**Software**	**Licenses**	**Assets Under Construction**	**Total**
Acquisition cost				
Balance as at January 1	**270,956**	**68,607**	**18,636**	**358,199**
Increase	-	-	23,985	**23,985**
Transferred into Use	25,620	7,053	(32,673)	**-**
Balance as at December 31	**296,576**	**76,144**	**9,948**	**382,184**
Accumulated Amortization				
Balance as at January 1	**(240,867)**	**(56,165)**	**-**	**(297,032)**
Depreciation cost	(13,995)	(5,271)	-	**(19,266)**
Balance as at December 31	**(254,862)**	**(61,436)**	**-**	**(316,298)**
Net Book Value				
Balance as at January 1	**30,089**	**12,442**	**18,636**	**61,167**
Balance as at December 31	**41,714**	**14,224**	**9,948**	**65,886**

Assets under construction as at 31 December 2022 mainly refer to investments into the application software and investments in other assets at purchased cost in the amount of HRK 28,403 thousand (2021: HRK 9,948 thousand), which are under construction due to future use by the Group. Internally developed software is included in the position Software and in 2022 amounts to HRK 5,914 thousand (2021: HRK 5,087 thousand).

17. NET DEFERRED TAX ASSETS/LIABILITIES

a) Recognized Deferred Tax Assets and Liabilities (Group)

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Group in 2022 and 2021 are presented below:

Group 2022 HRK '000	2022	Recognized as in the P&L Statement	Recognized as in the P&L Statement	Recognized as Other Comprehensive Income	Merger effect NHB p.l.c.	Merger effect Pronam Nekretnine Ltd.	2021
Deferred Tax Assets							
Loans and Advances to Customers	4,979	(489)	-	-	1,274	-	4,194
Other Provisions	29,760	(6,994)	(1,907)	-	36,660	94	1,907
Financial Assets	31,202	13,461	-	-	2,098	-	15,643
Deferred tax assets	4,748	-	-	-	-	-	4,748
Deferred tax assets - revaluation of own assets	9,003	8,763	-	-	108	-	132
Deferred tax assets - IFRS 16	468	(372)	-	-	511	-	329
Recognized tax loss	-	(2,698)	-	-	2,698	-	-
Revaulation reserves	2,349	-	-	-	2,349	-	-
Deferred Tax Liabilities							
Borrowings	(487)	23	-	-	-	-	(510)
Actuarial profit / loss - IAS 19	251	-	-	-	-	-	251
Revaluation Reserve	(8,276)	-	-	(2,230)	-	-	(6,046)
Fair Value Reserve	(5,241)	-	-	41,690	-	-	(46,930)
Deferred Tax Assets, Net	**68,756**	**11,694**	**(1,907)**	**39,460**	**45,698**	**94**	**(26,282)**

Group 2021 HRK '000	2021	Recognized as in the P&L Statement	Recognized as Other Comprehensive Income	2020
Deferred Tax Assets				
Loans and Advances to Customers	4,194	(18)	-	4,212
Other Provisions	1,907	-	-	1,907
Financial Assets	15,643	539	-	15,104
Deferred tax assets - impairment of land	4,748	-	-	4,748
Deferred tax assets - revaluation of own assets	132	132	-	-
Deferred tax assets - IFRS 16	329	-	-	329
Recognized tax loss	-	(8,334)	-	8,334
Deferred Tax Liabilities				
Borrowings	(510)	-	-	(510)
Actuarial profit / loss - IAS 19	251	-	251	-
Revaluation Reserve	(6,046)	-	(1,612)	(4,434)
Fair Value Reserve	(46,930)	-	6,243	(53,173)
Deferred Tax Assets, Net	**(26,282)**	**(7,681)**	**4,882**	**(23,483)**

17. NET DEFERRED TAX ASSETS/LIABILITIES (continued)

b) Recognized Deferred Tax Assets and Liabilities (Bank)

Changes in the temporary differences and portions of deferred tax assets and deferred tax liabilities, and the related balances at the Bank in 2022 and 2021 are presented below:

Bank **2022** **HRK '000**	**2022**	**Recognized as in the P&L Statement**	**Recognized in capital and reserves**	**Recognized as Other Comprehensive Income**	**2021**
Deferred Tax Assets					
Loans and Advances to Customers	3,715	(479)	-	-	4,194
Other Provisions	-	-	(1,907)	-	1,907
Financial Assets	27,374	11,731	-	-	15,643
Deferred tax assets - impairment of land	4,748	-	-	-	4,748
Deferred tax assets - revaluation of own assets	132	-	-	-	132
Deferred tax assets - IFRS 16	329	-	-	-	329
Deferred Tax Liabilities					
Borrowings	(487)	23	-	-	(510)
Actuarial profit / loss - IAS 19	251	-	-	-	251
Revaluation Reserve	(8,276)	-	-	(2,230)	(6,046)
Fair Value Reserve	(5,241)	-	-	41,690	(46,930)
Deferred Tax Assets, Net	**22,545**	**11,275**	**(1,907)**	**39,460**	**(26,282)**

Bank **2021** **HRK '000**	**2021**	**Recognized as in the P&L Statement**	**Recognized as Other Comprehensive Income**	**2020**
Deferred Tax Assets				
Loans and Advances to Customers	4,194	(18)	-	4,212
Other Provisions	1,907	-	-	1,907
Financial Assets	15,643	539	-	15,104
Deferred tax assets - impairment of land	4,748	-	-	4,748
Deferred tax assets - revaluation of own assets	132	132	-	-
Deferred tax assets - IFRS 16	329	-	-	329
Recognized tax loss	-	(8,334)	-	8,334
Deferred Tax Liabilities				
Borrowings	(510)	-	-	(510)
Actuarial profit / loss - IAS 19	251	-	251	-
Revaluation Reserve	(6,046)	-	(1,612)	(4,434)
Fair Value Reserve	(46,930)	-	6,243	(53,173)
Deferred Tax Assets, Net	**(26,282)**	**(7,681)**	**4,882**	**(23,483)**

18. OTHER ASSETS

	Group		Bank	
HRK '000	**31.12.2022**	**31.12.2021**	**31.12.2022**	**31.12.2021**
Fees Receivable	22,984	21,458	22,305	20,357
Items in Course of Collection*	65,608	31,100	56,478	31,100
Prepaid expenses	38,345	19,216	26,363	19,092
Other Receivables	74,508	72,822	73,597	72,688
Total Other Assets, Gross	**201,445**	**144,596**	**178,743**	**143,237**
Impairment Loss	(20,603)	(19,941)	(20,473)	(19,940)
Total	**180,842**	**124,655**	**158,270**	**123,297**

* The instruments used in the billing process relate mainly to the assets in the sale-purchase agreement effective in the amount of HRK 40,500 thousand (2021: HRK 14,465 thousand), as well as other accounts receivable (population, card transactions, payment transactions, effective sales etc.).

Movements in Impairment Allowance

Movements in the impairment allowance on other assets were as follows:

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Balance at January 1	**19,941**	**23,775**	**19,941**	**23,775**
Increase in Impairment Losses	2,376	3,183	1,206	3,182
Merger effect NHB	3,587	-	-	-
Foreign Exchange Currencies	12	200	12	200
Used Impairments and Other	(5,313)	(7,217)	(686)	(7,217)
Balance at December 31	**20,603**	**19,941**	**20,473**	**19,940**

19. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Negative fair value “swap”	232	-	232	-
Balance at December 31	**232**	**-**	**232**	**-**

20. DEPOSITS FROM BANKS

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Demand Deposits	71,361	28,017	28,826	28,017
Term Deposits	302,743	-	188,363	-
Interest Payable Due	8	-	-	-
Interest Payable Not Yet Due	119	8	8	8
TOTAL	**374,231**	**28,025**	**217,196**	**28,025**

21. DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Demand Deposits				
Retail	12,055,970	8,321,686	10,701,676	8,321,686
Corporate	9,941,775	6,553,089	9,000,123	6,562,335
Restricted Deposits				
Retail	264,265	264,417	253,961	264,417
Corporate	4,825,473	3,462,433	4,819,261	3,462,433
	27,087,482	**18,601,625**	**24,775,020**	**18,610,871**
Term Deposits				
Retail	5,268,376	3,743,420	3,457,177	3,743,419
Corporate	2,217,470	1,060,151	1,107,733	1,060,151
	7,485,847	**4,803,571**	**4,564,911**	**4,803,570**
Interests Payable - Not Yet Due	21,410	7,649	6,279	7,649
Total current account and deposits from customers	**34,594,738**	**23,412,844**	**29,346,210**	**23,422,089**

Restricted deposits mainly relate to client deposits which are predetermined for special purposes, such as those based on court orders.

22. BORROWINGS

Borrowings

Interest-bearing borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between proceeds (net of transaction costs) and redemption value being recognized in the P&L report over the period of the borrowings as interest. The amount is subsequently reduced by not deferred portion of the fee paid at the point of loan approval.

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Long-term loans from HNB	587,000	400,000	400,000	400,000
Long-term loans from banks	449,869	98,769	449,869	98,769
Long-term loans HBOR	1,383,326	806,117	858,704	806,117
Other long-term liabilities - Leasing	99,314	90,057	76,144	90,057
Accrued Interests Due	205	-	205	-
Accrued Interests not Yet Due	7,823	1,943	4,774	1,943
Total	**2,527,537**	**1,396,886**	**1,789,696**	**1,396,886**

Leases

The contract is, or contains, lease if it conveys the right to use an underlying asset for the defined period of time in exchange for consideration. For such contracts the Bank recognizes right-of-use asset and lease liability.

Leases where the Bank and the Group are lessors in which they retain all the risks and awards related to the ownership, comprise all the tangible and intangible asset at purchase cost less accumulated depreciation or amortization. Rent income from operating lease is recognized in profit or loss statement using straight-line method during the lease period. Initial costs, directly related to the operating lease contract, the Bank recognizes over time in line with the recognition of rent income. For the duration of a lease contract, the Bank recognizes depreciation or amortization and impairment losses on the leased asset aligned with the amortization method applicable for the similar asset owned by the Bank.

For lease contracts where the Bank is a lessee, lease liability is measured at the present value of future lease payments, discounted at incremental discount rate of the lessee at the date of initial recognition. Lease liability is recognized in contracted currency.

22. BORROWINGS (continued)

On the other hand, the Bank as a lessee recognizes Right-of-Use Asset (RoU) at the date of initial recognition by which the right to use the underlying asset is measured at the amount of present value of future lease payments adjusted for any accruals and prepayments related to the lease contract

recognized in the statement of financial position immediately before the date of initial recognition. The Right-of-Use Asset is recognized in Bank's functional currency and is depreciated on a straight-line bases over lease term.

Subsequent measurement of the lease liability includes an increase in book value to reflect interest on the lease obligation and a decrease in value that reflects the lease payments.

Bank opted for the practical expedient in terms of IFRS 16 "Leases" (i.e. Lease Liability and Right-of-Use Asset recognition) in the following cases:

- Short-term leases and
- Leases of low-value items.

In these cases, lease payments are recognized as an expense over the lease term.

The Bank decided to opt for the low-value items expedient and identified, based on the IASB opinion presented in the Basis of conclusion, that the order of magnitude would be USD 5,000 (value of underlying asset).

Bank has opted for the expedient for the intangible asset as well.

VAT is excluded from the calculation of the Right-of-Use Asset and the Lease Liability.

Lease liability is measured at the present value of future lease payments (not paid at that date), discounted at the interest rate implicit in the lease if it can be readily determined. Otherwise, the Bank uses its incremental borrowing rate.

Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow:

- the funds to obtain asset of a similar value to the right-of-use asset;
- over a similar term;
- with a similar security;
- in similar economic environment.

The Bank discloses the information about lease contracts in which it acts as a lessee, separately in the financial statements which comprise the following:

a) Depreciation charge for the right-of-use asset
b) The interest expense on the lease liability
c) Expenses related to the short-term leases (these expenses do not have to include expenses related to contracts with lease period shorter or equal to one month)
d) Expenses related to the leases of low-value items

The Bank applied modified retrospective approaches in accordance with IFRS 16 and accounting policies, as the lessee used exceptional recognition for the lease of "low value" assets (EFTPOS devices) and short-term leases, i.e. leases with a 12-month or shorter period.

During the lease period in 2022, the bank recognized HRK 919 thousand (HRK 920 thousand in 2021) as an expense on a proportional basis for low-value asset leases, or HRK 1,221 thousand (HRK 304 thousand in 2021) for short-term leases.

VAT is exempt from the calculation of assets with the right of use and lease obligations. The average weighted incremental borrowing rate on December 31, 2022 is 4.73 percent (December 31, 2021, 4.8 percent).

In 2022, the Bank terminated two lease agreements and recognized income in the amount of HRK 929 thousand (HRK 672 thousand in 2021).

22. BORROWINGS (continued)

Interest expenses in accordance with IFRS 16 amount to HRK 3,935 thousand (2021: HRK 5,078 thousand), of which HRK 3,368 thousand refers to corporate (2021: HRK 4,160 thousand), while the rest of HRK 567 thousand (2021: HRK 918 thousand) refers to retail and SME

Changes in Lease Liabilities

		Group		Bank
	2022 HRK '000	2011 HRK '000	2022 HRK '000	2011 HRK '000
Balance as of January 1st	**90,057**	**114,528**	**90,057**	**114,528**
Merger effect NHB	29,891	-	-	-
New contracts	3,643	6,013	3,618	6,013
Modifications	9,924	1,172	9,924	1,172
Lease payments	(26,811)	(22,188)	(19,785)	(22,188)
Cesation	(9,193)	(9,480)	(9,144)	(9,480)
Exchange rate fluctuations	330	12	-	12
Balance at December 31	**97,840**	**90,057**	**74,670**	**90,057**

Future minimal Lease Payments

		Group		Bank
	2022 HRK '000	2011 HRK '000	2022 HRK '000	2011 HRK '000
up to one year	23,324	20,363	16,564	20,363
from one to five years	56,852	51,930	43,738	51,930
over five years	17,664	17,765	14,368	17,765
Total	**97,840**	**90,057**	**74,670**	**90,057**

22. BORROWINGS (continued)

Liabilities arising from financing activities

Group HRK '000	Short-term loans	Long-term loans	Leases	Other
Liabilities from financing activities as of January 1, 2021	**-**	**1,352,113**	**114,528**	**-**
Cash flows	-	(45,284)	(15,003)	-
FX	-	-	12	-
Other non-cash movement	-	-	(9,480)	-
Liabilities from financing activities as of December 31, 2021	**-**	**1,306,829**	**90,057**	**-**
Cash flows	594,744	(923,055)	(26,811)	(7,345)
Acquisition of subsidiaries	117,150	1,329,783	43,433	10,739
FX	(617)	(4)	330	-
Other non-cash movement	-	-	(7,696)	-
Liabilities from financing activities as of December 31, 2022	**711,277**	**1,713,553**	**99,313**	**3,394**

Bank HRK '000	Short-term loans	Long-term loans	Leases	Other
Liabilities from financing activities as of January 1, 2021	**-**	**1,352,113**	**114,528**	**-**
Cash flows	-	(45,284)	(15,003)	-
FX	-	-	12	-
Other non-cash movement	-	-	(9,480)	-
Liabilities from financing activities as of December 31, 2021	**-**	**1,306,829**	**90,057**	**-**
Cash flows	-	406,724	(19,785)	-
Business combinations	-	-	13,542	-
Other non-cash movement	-	-	(7,671)	-
Liabilities from financing activities as of December 31, 2022	**-**	**1,713,553**	**76,143**	**-**

23. PROVISIONS FOR COMMITMENTS AND CONTINGENCIES

The Bank and Group recognize a provision when it has a present obligation as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate can be made of the obligation. Provisions are also made for off-balance sheet credit risk exposures on a portfolio basis.

Provision for liabilities and charges represent the best estimate of the expenditures needed to settle the present obligation at the reporting date. The management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

Provisions are released only for such expenditure in respect of which provision are recognized at initial recognition. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

	Group		Bank	
	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
Litigation Provisions	275,233	16,325	40,144	16,325
Provision for Contingent Liabilities	14,898	7,557	3,971	7,557
Provisions for Other Liabilities	38,198	26,148	34,738	26,148
Provisions for Off-Balance Sheet Exposures	62,929	32,225	57,922	32,225
Provisions for employees	6,983	5,827	6,918	5,762
Total	**398,241**	**88,080**	**143,693**	**88,015**

During 2022, the bank had a release of net provisions for court cases in the amount of HRK 23,820 thousand (2021: HRK 13,544 thousand).

The member of the Group was sued in a large number of court cases, and provisions were made for them in the financial statements. The majority of active lawsuits against members of the Group relate to CHF loan disputes arising from the "Potrošač" case.

In 2012, the "Potrošač" association sued a total of eight Croatian banks (among them a member of the Group), claiming that consumers who in the period 2004-2008 borrowed loans related to CHF i) were not adequately informed by the banks about all the risks related to such loans, as well as that ii) the variable interest rates applied in those contracts were illegal.

After a longterm procedure in which both the Constitutional and Supreme Courts were involved, the High Commercial Court of the Republic of Croatia issued a verdict that the member received on July 20, 2018, which is in favor of the Croatian association "Potrošač", and which essentially confirmed the first-instance decision of the Commercial Court in Zagreb (first-instance decision from 2013) against 8 banks. This procedure had a favorable outcome for the defendant, and the decision was received on September 24, 2019.

As a consequence of the said unfavorable ruling, the number of new lawsuits by clients - consumers against the Group members related to CHF loans increased from year to year.

In individual disputes related to non-converted CHF loans, the positions of the courts and judicial practice were unambiguously profiled in favor of the plaintiff.

23. PROVISIONS FOR COMMITMENTS AND CONTINGENCIES (continued)

During 2022, compared to previous years, the number of lawsuits against the Member related to CHF loans increased, as well as the number of final decisions against the Member. The increased number of litigations resulted in a higher amount of provisions for court cases. The Group member specifically makes portfolio reservations for potential disputes related to non-converted CHF loans.

Regarding converted loans, on March 10, 2020, the Supreme Court issued a Decision in the so-called trial procedure, which was initiated due to the question of the validity of the agreement on the conversion of loans in Swiss francs. The Supreme Court declared the conversion of loans in Swiss francs valid and considers that the conversion agreements (including all their supplements) have valid legal effects regardless of the invalidity of the provisions on the interest rate or the currency clause in the basic loan agreements in Swiss francs. This judgment of the Supreme Court can reduce the pressure and significantly ease the position of the Member in the individual lawsuits that are pending regarding the converted loans.

During 2022, the decision of the Court of the EU in case C-567/20 was also made - the Court decided to accept the opinion of the independent lawyer J. Kokott, and found that the controversial case of conversion is a legal intervention in relation to which assumes that the contractual balance has been established, and that as such it is not subject to the application of Directive 93/13. The EU Court instructed our national courts to check whether the contractual balance has indeed been established, taking into account all the legal and factual circumstances that preceded the conversion.

Civil Division of the Supreme Court of the Republic of Croatia is 20.12.2022 adopted a legal position according to which a consumer who entered into an agreement on loan conversion has the right to payment of the corresponding default interest on overpaid amounts that the bank charged to the consumer when calculating the loan conversion. Due to the risk of potential new court cases, the member formed portfolio reservations on this basis.

During the allocation of the purchase price, the Group also took into account potential liabilities related to legal claims for CHF, in accordance with the requirements of IFRS 3 Business Combinations, which may result in an outflow of funds in the future. Based on this, the balance of reservations as of December 31, 2022 amounts to HRK 64,358 thousand.

In 2021, item Provisions for employees was transferred from Note 24. Other liabilities.

Movements in Provisions for commitments and contingencies

The movements in provisions for commitments and contingencies were as follows:

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Balance at January 1	**88,080**	**116,424**	**88,015**	**116,424**
Merger effect NHB	247,580	-	-	-
Increase/ (Decrease) in Provisions in the P&L Report	59,953	307	50,411	307
Other	2,628	(28,651)	5,267	(28,716)
Balance at December 31	**398,241**	**88,080**	**143,693**	**88,015**

24. OTHER LIABILITIES

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Trade Accounts Payable	23,125	14,866	17,164	14,638
Salaries Amounts to Be Withheld from Salaries, Taxes and Contributions	31,207	22,235	22,192	21,574
Provisions for Retirement Benefits, Termination Benefits and Similar Liabilities	7,880	7,457	7,880	7,457
Fees Payable	5,382	4,471	5,332	4,367
Items in Course of settlement	130,115	67,646	99,162	67,646
Prepaid Deferred Income	2,759	3,627	2,759	3,627
Liabilities for paid advances	67,646	18,996	24,160	18,996
Liabilities for HNB starter packages	38,799	-	38,799	-
Other Liabilities	95,672	48,472	52,569	47,267
Total	**402,585**	**187,770**	**270,017**	**185,572**

In 2021, the item Provisions for employees was transferred to Note 23. Provisions for liabilities and charges Obligations for starter packs of the CNB refers to starter packs of euro coins for retail and corporate.

25. EQUITY AND RESERVES

Share Capital and Reserves

Share capital is denominated in Croatian Kuna and stated at nominal value. The amount of fees paid on repurchase of share capital, including directly attributable costs, is recognized as a deduction from equity and classified as treasury shares.

Dividends

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

Retained Earnings/ Accumulated Losses

All income for the year, retained after appropriations, is transferred to reserves, in accordance with the decision of the General Assembly.

Loss for the period is charged on the accumulated retained earnings. Any remaining loss is allocated in accordance with the regulations applicable to trading companies in the Republic of Croatia.

25. EQUITY AND RESERVES (continued)

a) Share Capital and treasury shares reserve

As at 31 December 2022, the authorized, registered and fully paid-up share capital of the Bank amounted to HRK 1,214,755 thousand (2021: 1,214,755 thousand) and included 2,024,625 (2021: 2,024,625) of the approved ordinary the nominal value of HRK 600.00.

In February 2022, the Bank acquired a total of 341 of its treasury shares marked as HPB-R-A in accordance with repurchase programme. Before the aforementioned acquisition, the bank had 795 own shares without rights, and after

of the aforementioned acquisition, it had a total of 1,136 own shares without voting rights.

The release of the specified number of own shares was carried out in accordance with the Decision of the General Assembly on the issuance authorizations for the Bank's Management to acquire and dispose of own shares from May 2021 and the repurchase programme of treasury shares from January 2022 and until the next regular General Assembly of the Bank in 2022. After the transfer, the Bank has no more treasury shares in its treasury account on December 31, 2022 (2021: 795, in the amount of HRK 477 thousand).

Reserve for treasury shares as of 31.12.2022 amounts to HRK 4,477 thousand (2021: HRK 4,477 thousand).

The ownership structure is as follows:

		2022		2021
	Paid-In Capital HRK '000	**Ownership**	**Paid-In Capitall HRK '000**	**Ownership**
Republic of Croatia ((Ministry of Physical Planning, Construction and State Property)	545,421	44.90%	545,421	44.90%
Hrvatska Pošta p.l.c.	144,966	11.93%	144,966	11.93%
State Agency for Deposit Insurance and Bank Resolution	109,091	8.98%	109,091	8.98%
Croatian State Pension Insurance Fund (Ministry of Physical Planning, Construction and State Property)	106,387	8.76%	106,387	8.76%
Fund NEK	33,139	2.73%	33,139	2.73%
Others	275,772	22.70%	275,772	22.70%
Total	**1,214,775**	**100.00%**	**1,214,775**	**100.00%**

25. EQUITY AND RESERVES (continued)

b) Fair Value Reserve

The fair value reserve includes unrealized gains and losses on changes in the fair value of financial assets at fair value through other comprehensive income, net of tax.
The movements of fair value reserve during 2022 and 2021 were as follows:

Group i Bank	2022 HRK '000	2021 HRK '000
Balance at January 1	**212,651**	**242,231**
Equity instruments in assets at other comprehensive income - net change in fair value	929	(1,553)
Net Unrealized (Loss)/Gain from Financial Assets at FV through OCI	(232,538)	(31,302)
Changes in actuarial gains	-	(3,219)
Deferred tax relating to the change in the revaluation of financial assets at fair value through other comprehensive income	41,690	6,493
Balance at December 31	**22,731**	**212,651**

In 2022, the item Changes in actuarial gains was transferred to Note 23 Provisions for liabilities and expenses.

c) Revaluation Reserve

The revaluation reserve in the amount of HRK 37,701 thousand (2021: HRK 27,543 thousand), net of taxes, arises from the revaluation of the Bank's land and buildings. In 2022, the increase in the revaluation reserve amounts to HRK 10,157 thousand (2021: increase of HRK 4,799 thousand). The movement of the revaluation reserve during the reporting period 2022 and 2021 is as follows:

Group i Bank	2022 HRK '000	2021 HRK '000
Balance at January 1	**27,543**	**22,744**
Decrease in the Revaluation Reserve on Depreciation of Assets	12,387	6,411
Deferred Tax Related to Revaluation Reserve	(2,230)	(1,612)
Balance at December 31	**37,701**	**27,543**

d) Proposed Dividends

Dividend liabilities are not recognized until they are approved at the Shareholders' General Meeting. In 2022 there were no dividend payments (2021: there were no dividend payments).

25. EQUITY AND RESERVES (continued)

e) Legal and other reserves

The Bank is obliged to form a legal reserve by allocating 5% of net profit for the year, until the reserves reach 5% of the share capital.

Statutory reserves amounts to HRK 50,115 thousand for the Group and the Bank (2021: HRK 40,010 thousand for the Group and the Bank), prior to the distribution of result achieved in 2021, which is reported in the retained earnings position.

Other reserves for the Bank and the Group as at 31 December 2022 amount to HRK 607,387 thousand (2021: HRK 657,992 thousand).

f) Retained earnings

In March 2022, the General Assembly of the Bank passed a Decision to transfer part of the profit from 2021 in the amount of HRK 192,001 thousand to retained earnings within capital and reserves (2021: HRK 91,031 thousand) after allocating the legal reserve.

g) Financial Leverage Ratio

In line with article 429 of Regulation EU 575/ 2013 calculation of financial leverage ratio between common Tier-1 equity and total exposure is mandatory for each credit institution.

Financial leverage ratio for the Bank is as follows:

	2022	2021
Financial Leverage Ratio (%)	7.37	9.14

26. EARNINGS PER SHARE

The Bank presents earnings or loss per share data for its ordinary shares. Earnings/ loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

For the purpose of calculating earnings per share, earnings are accounted for as the profit / loss for the current period intended for the shareholders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares in circulation during the year after the decrease of the number of regular treasury shares. The weighted average number of ordinary shares used to calculate the basic / diluted earnings per share would be the same as the number used to calculate the basic and diluted earnings per share, or 2,024,625 (2021: 2,023,830), as shown below:

Group and Bank	2022 HRK '000	2021 HRK '000
Current Year Profit/ Distributable to the Bank's Owners	**132,606**	**202,107**
Profit Used to Calculate Basic and Diluted Earnings Per Share	132,606	202,107
Weighted Average Ordinary Shares Outstanding Used to Calculate Basic and Diluted Earnings Per Share	2,024,625	2,023,830
Basic and Diluted Earnings Per Share	**HRK 65.50**	**HRK 99.86**

INTEREST INCOME AND EXPENSE (NOTE 27 AND 28)

Interest income and expense are recognized in the Profit and loss (“P&L”) report as they accrue for all interest bearing financial instruments, including those measured at amortized cost, at fair value through other comprehensive income, using the effective interest rate method.

Such income and expense are presented as interest and similar income or interest expense and similar charges in the P&L report. Interest income and expense also includes fee and commission income and expense in respect of loans provided to customers or borrowings from other banks, premium or discount amortization, and other differences between the initial carrying amount of an interest-bearing financial instrument and its value at maturity, recognized on a basis of effective interest rate. Interest income and expense on all trading assets and liabilities are presented as interest income or expense.

For financial assets measured at amortized cost, calculation the effective interest rate is based on gross book value, with the exemption of the following:

(a) purchased or originated credit impaired financial assets. For such financial assets the entity applies to the amortized cost of financial assets on initial recognition the effective credit impaired interest rate;

(b) financial assets that is neither purchased nor originated credit impaired financial assets, but afterwards became credit impaired financial assets. For such financial assets the subject in the following reporting periods to the amortized cost of financial assets applies the effective interest rate

Modification of contracted cash flows

If contracted cash flows from financial assets were to be renegotiated or modified in some other manner, whereby such new deal or modification do not lead to derecognition of the financial assets, the Bank and the Group recalculate gross book value of the financial assets and in the profit and loss recognize the gain or loss. Gross book value of financial assets is recalculated as present value of renegotiated or modified contracted cash flows discounted by initial effective interest rate of the financial assets (for purchased or originated credit impaired financial assets discounted by effective credit impaired interest rate) or if necessary by credit impaired effective interest rate. Book value of modified financial assets is impaired by arisen costs or fees, which are depreciated during the remaining period of the modified financial assets. When the modification of conditions or modification of contracted future cash flows leads to derecognition of existing financial assets and at the same time there are impairment indicators of new financial assets, it represents the purchased or originated credit impaired financial assets (so called POCI). Once classified into the POCI category, the assets remain in it for its remaining lifetime.

27. INTEREST INCOME

a) Income Analysis by Product:

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Loans and Advances to Customers				
- Corporate	193,119	154,050	145,679	154,050
- Individuals	479,905	326,788	308,239	326,788
	673,024	**480,837**	**453,918**	**480,837**
Loans and Advances to Customers	19,985	(3,625)	18,239	(3,625)
Debt Securities	83,372	72,293	79,490	72,293
Bills of Exchange	101	86	28	86
Total	**776,482**	**549,592**	**551,675**	**549,592**

b) Income Analysis by Source:

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Corporate	141,236	101,223	98,541	101,223
Retail	479,905	326,788	308,239	326,788
Government and Public Sector	129,677	124,290	122,665	124,290
Banks and Other Financial Institutions	22,935	(3,557)	21,189	(3,557)
Other Organizations	2,730	848	1,042	848
Total	**776,482**	**549,592**	**551,675**	**549,592**

28. INTEREST EXPENSE

a) Expense Analysis by Product

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Borrowings	15,459	11,995	12,266	11,995
Customer Deposits				
- Corporate	9,233	9,475	7,490	9,475
- Retail	17,391	9,605	5,928	9,605
	26,623	19,080	13,418	19,080
Deposits from Banks	7,322	1,009	2,320	1,009
Other	6,151	3	-	-
Total	**55,556**	**32,087**	**28,003**	**32,084**

b) Expense Analysis by Recipient

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Corporate	9,111	7,119	6,100	7,119
Retail	17,558	9,605	5,928	9,605
Government and Public Sector	98	1,077	98	1,077
Banks and other Financial Institutions	26,277	14,174	15,830	14,174
Others	2,512	112	48	109
Total	**55,556**	**32,087**	**28,003**	**32,084**

Within the Legal entity item, HRK 3,935 thousand relates to interest expense in accordance with IFRS16 (2021: HRK 5,079 thousand)

FEES AND COMMISSIONS INCOME AND EXPENSE (NOTE 29 AND 30)

Fee and commission income and expense arise on financial services provided by the Bank and received by the Bank, and mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by and to the Bank and the Group. Fee and commission income and expense are recognized in the P&L report when the related service is performed. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognized over the term of the commitment. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank and Group has retained no part for itself, or has retained a part at the same effective interest rate as the other participants. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts.

Asset management fees related to investment fund management are recognized on an accrual basis over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

29. FEES AND COMMISSIONS INCOME

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Cash Payment Operations	217,613	217,314	215,896	217,314
Non-Cash Payment Operations	66,802	54,679	62,595	54,668
Retail and Credit Card Operations	238,808	172,414	205,062	172,414
Letters of Credit Guarantees and Foreign-Exchange Payment Operations	19,235	14,508	14,340	14,508
Other Fees and Commissions Income	44,664	31,138	24,489	24,073
Total	**587,122**	**490,053**	**522,382**	**482,976**

30. FEES AND COMMISSIONS EXPENSE

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Cash Payment Operations	194,511	193,961	194,511	193,961
Non-Cash Payment Operations	14,626	12,559	12,963	12,535
Card Operations	81,296	64,368	77,439	64,368
Other Fees and Commission Expense	36,559	20,718	30,495	19,236
Total	**326,992**	**291,606**	**315,408**	**290,100**

31. NET (LOSESS)/GAINS FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Gains less losses from financial instruments at fair value through profit or loss include unrealized and realized gains and losses arising from derivative financial instruments, trading debt securities and other financial instruments designated at fair value through profit or loss.

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Realized Gains/ (Losses)				
- Debt securities	71	(1,806)	71	(1,806)
- Equity Securities	-	30,800	-	30,800
- Forward Contracts, OTC	7,247	(460)	613	(460)
	7,319	**28,534**	**684**	**28,534**
Unrealized Gains/ (Losses)				
- Debt securities	(59,546)	(5,595)	(55,508)	(5,595)
- Equity Securities	213	452	213	452
- Investment Funds	(11,653)	9,875	(11,653)	9,875
- Forward Contracts, OTC	131	21	131	21
- Futures	1,542	-	-	-
	(69,313)	**4,753**	**(66,817)**	**4,753**
Net fx gains/losses from monetary assets and liabilities revalorization	**(9,808)**	**(7,593)**	**(3,069)**	**(7,593)**
Total	**(71,803)**	**25,694**	**(69,202)**	**25,694**

32. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Gains less losses from financial instruments at fair value through other comprehensive income include realized gains and losses from financial instruments measured at fair value through other comprehensive income.

Assets measured at fair value through other comprehensive income include debt and equity securities.

Profit or loss on financial assets that are measured at fair value through other comprehensive income are recognized in other comprehensive income, with the exception of gains or losses from impairment and gains and losses from exchange differences, until the financial asset is derecognized or reclassified. If a financial asset is derecognised, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

In the case of equity shares from the portfolio that are valued at fair value through other comprehensive income, a significant or longer-term decline in the fair value of the security below its purchase value is considered objective evidence of impairment.

Objective impairment evidence may include:

- Significant financial difficulties for issuer or other contract party, or
- Contract breach, for example late payments or non-payment of principal and interest, or
- Likely bankruptcy start or financial restructuring of the debtor, or
- Disappearance of active market for concerned financial assets due to financial difficulties.

If a financial asset is derecognised, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Realized Gains on Disposal of Debt Securities at Fair Value through Other Comprehensive Income	2,118	-	2,118	-
Total	**2,118**	**-**	**2,118**	**-**

33. NET GAINS FROM TRADING IN FOREIGN CURRENCIES

Gains less losses from dealing in foreign currencies include unrealized and realized gains and losses arising from spot dealings in foreign currencies.

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Profit from trading in foreign currencies	62,002	53,533	59,152	53,533
Other trading in foreign currencies	(1,031)	3,943	(1,031)	3,943
Total	**60,971**	**57,476**	**58,121**	**57,476**

34. OTHER OPERATING INCOME

Dividend income on equity investments is recognized in the P&L report when the right to receive dividends is established.

	Group		Bank	
	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
Dividend Income	1,164	2,044	2,549	2,044
Income from sale of asset	3,150	5,029	967	5,029
Other income	14,369	17,711	7,460	13,980
Total	**18,682**	**24,784**	**10,976**	**21,053**

35. GENERAL AND ADMINISTRATIVE EXPENSES

Provisions for Severance Payments and Jubilee Awards

In calculating provisions for severance payments and jubilee awards, the Bank and Group discounts expected future cash flows in respect of the liabilities, using discount rates that, in opinion of the Bank's management, best represent the time value of money. Actuarial gains or losses for long-term benefits are recognized in profit and loss statement, whereas interest expense and current period employee expenses are recognized in profit or loss statement.

Defined Pension Contributions

The Bank and Group pays contributions to pension-insurance funds on a mandatory, contractual basis. The Bank and Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

	Group		Bank	
	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
Materials and Services	153,565	117,388	142,420	116,488
Administration and Marketing	19,430	8,828	12,392	8,792
Postage and Telecommunications	26,161	24,419	24,543	23,971
Staff Costs	341,140	249,606	261,393	243,810
Savings Deposit Insurance Costs	31,968	13,916	24,764	13,916
Other General and Administrative Expenses	122,924	35,944	27,710	35,421
Total	**695,188**	**450,102**	**493,222**	**442,399**

35. GENERAL AND ADMINISTRATIVE EXPENSES (continued)

a) Staff Costs

	Group		Bank	
	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
Net Salaries and Other Employee Costs	191,551	141,169	144,243	137,906
Taxes and Contributions (including contributions payable by employers)	135,012	92,003	103,120	89,742
Provision for severance pay, jubilee awards, vol. employee vacations	(4,071)	1,095	(3,800)	1,095
Other Fees to Employees	18,452	15,117	17,718	14,956
Fees to Supervisory Board Members	196	223	112	112
Total	**341,140**	**249,606**	**261,393**	**243,810**

As at December 31, 2022, the Bank had 1,321 employees (2021: 1,289) and the Group had 1,805 employees (2021: 1,315 employees).

The costs of mandatory contributions for pension insurance in the second pillar in 2022 amount to HRK 10,297 thousand (2021: HRK 9,607 thousand).

36. IMPAIRMENT LOSSES ON LOANS TO AND RECEIVABLES FROM CUSTOMERS AND OTHER ASSETS

		Group		Bank	
		2022	2021	2022	2021
	Notes	HRK '000	HRK '000	HRK '000	HRK '000
Expected credit losses Stage 3					
Loans to and Receivables from Banks		9,900	-	-	-
Loans to and Receivables from Customers	11	(59,948)	(67,348)	23,201	(67,348)
Financial Assets at FV through P&L	8	(55)	914	(55)	914
Financial Assets at Amortized Cost	10	-	90	-	90
Other Assets	18	(1,677)	(3,182)	(506)	(3,181)
Investment property	15	12,980	1,903	12,980	1,903
Tangible and intangible assets	14,16	(64,155)	192	321	192
Net (loss)/gains from (writte-off)/collection of Placements Written-Off in Previous Years		(55)	(6)	(64)	(6)
Total (cost)/revenue		**(103,009)**	**(67,437)**	**35,878**	**(67,436)**
Expected credit losses Stage 1&2					
Loans to and Receivables from Banks		(2)	-	-	-
Loans to and Receivables from Customers	11	(113,042)	8,015	(35,207)	8,015
Financial Assets at FV through OCI	9	21,147	(6,410)	21,212	(6,410)
Financial Assets at Amortized Cost	10	9,185	21	9,185	21
Investment property		(213)	-	-	-
Total (cost)/revenue		**(82,926)**	**1,626**	**(4,811)**	**1,626**
Total expected losses					
Loans to and Receivables from Banks		9,898	-	-	-
Loans to and Receivables from Customers	11	(172,991)	(59,333)	(12,006)	(59,333)
Financial Assets at FV through P&L	8	(55)	914	(55)	914
Financial Assets at FV through OCI	9	21,147	(6,410)	21,212	(6,410)
Financial Assets at Amortized Cost	10	9,185	111	9,185	111
Other Assets	18	(1,677)	(3,181)	(506)	(3,181)
Investment property	15	12,767	1,903	12,980	1,903
Tangible and intangible assets	14,16	(64,155)	192	321	192
Gains from Recovery of Placements Written-Off in Previous Years		(55)	(6)	(64)	(6)
Total (cost)/revenue		**(185,935)**	**(65,810)**	**31,067**	**(65,810)**

Identified losses on an individual basis related to financial assets at fair value through profit or loss relate to loans and receivables from customers who failed the SPPI test.

37. INCOME TAX

Corporate tax expense represents the sum of the tax currently payable and deferred tax.

Current tax payable is based on taxable profit for the year. Taxable profit differs from ‘profit before tax’ as reported in the P&L report and report of other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in financial reports and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

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

The measurement of deferred tax liabilities and assets reflects the amount that the Bank and Group expects, at the end of the financial reports date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified in the report of financial position as non-current assets and/ or non-current liabilities. Deferred tax assets are recognized only to the extent that it is probable that the related tax benefit will be realized. At each reporting date, the Bank and Group reviews the unrecognized potential tax assets and the carrying amount of the recognized tax assets.

37. INCOME TAX (continued)

Total recognized corporate tax expense, calculated at the corporate tax rate of 18%, comprises corporate tax expense recognized in the P&L report and movements in deferred tax recognized in equity, as follows:

Income Tax Expense Recognized in the P&L Statement

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Current Tax	(38,829)	(36,139)	(37,099)	(35,887)
Deferred tax expense/(income)	11,694	(7,681)	11,275	(7,681)
Income tax	**(27,135)**	**(43,820)**	**(25,824)**	**(43,568)**

The movement of deferred tax assets and liabilities with recognition effects in other comprehensive income and the income statement is set out in Note 17. Net deferred tax assets / liabilities.

Reconciliation of Income Tax Expense

The reconciliation between income tax expense and profit before tax is shown as follows:

	Group		Bank	
	2022 HRK '000	**2021 HRK '000**	**2022 HRK '000**	**2021 HRK '000**
Profit Before Taxation	*981,494*	*246,445*	*158,430*	*245,675*
Income Tax at the Rate of 18%	(176,669)	(44,360)	(28,517)	(44,221)
Tax Non-Deductible Expenses	(8,780)	(1,425)	(7,514)	(1,420)
Non-Taxable Income	194,017	(3,040)	10,207	(2,932)
Recognized tax losses	406	-	-	-
Recognized Deferred Tax Asset	93	5,005	-	5,005
Unrecognized Deferred Tax Asset	(36,203)	-	-	-
	(27,135)	**(43,820)**	**(25,824)**	**(43,568)**
Effective Income Tax Rate	*2.76%*	*17.78%*	*16.30%*	*17.73%*

Recognized Deferred Tax in Respect of Tax Losses Disposable in Prospective Periods

In 2022, the Bank has no deferred tax assets based on previous losses.

In 2021, all previously recognized tax assets with a total effect on the income statement in the amount of HRK 8,334 thousand were used.

38. CONCENTRATION OF ASSETS AND LIABILITIES

The assets and liabilities of the Bank are significantly concentrated on amounts directly due from and to the Republic of Croatia. The amounts at year end, including accrued interest, are as follows:

		Group		Bank	
	Notes	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
Giro Account with the CNB	5	9,843,932	4,354,286	8,883,506	4,354,286
Mandatory Reserve with the Croatian National Bank	6	-	1,326,442	-	1,326,442
Bonds of the Republic of Croatia		4,835,404	4,465,745	4,220,588	4,465,745
Treasury Bills of the Croatian Ministry of Finance		1,129,804	376,071	1,129,804	376,071
Loans and Advances to the Republic of Croatia		1,555,690	1,691,852	1,509,638	1,691,852
Deposits from the Republic of Croatia		(6,769,559)	(4,422,236)	(6,769,559)	(4,422,236)
Total		**10,595,271**	**7,792,159**	**8,973,977**	**7,792,159**

The Bank's exposure towards local government and state institutions not directly funded by the State Budget (excluding state owned companies) is presented below:

	Group		Bank	
	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
Loans	1,620,039	1,381,522	1,620,039	1,381,522
Deposits	(737,585)	(674,425)	(736,566)	(674,425)
Total	**882,454**	**707,097**	**883,473**	**707,097**

39. CASH AND CASH EQUIVALENTS

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

		Group		Bank	
	Notes	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
Cash and Amounts Due from Banks	5	11,091,436	6,192,555	9,919,462	6,192,515
Deposits with Banks with Original Maturities of Up to 90 Days		144,314	277,696	1,391,164	277,696
Items in Course of Collection	18	65,608	31,100	56,478	31,100
Total		**11,301,358**	**6,501,351**	**11,367,104**	**6,501,311**

40. CONTINGENT LIABILITIES

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

	Group		Bank	
	2022 HRK '000	2021 HRK '000	2022 HRK '000	2021 HRK '000
Guarantees Denominated in HRK	2,026,736	429,026	882,977	429,026
Guarantees Denominated in Foreign Currency	193,901	61,632	57,380	61,632
Letters of Credit	5,279	9,888	1,164	9,888
Undrawn Lending Commitments	3,029,658	2,176,448	2,647,071	2,176,448
Total	**5,255,574**	**2,676,993**	**3,588,592**	**2,676,993**

As at December 31, 2022, the Bank recognized the provision based on off-balance sheet risks arising from the issuance of guarantees, letters of credit and unused loans in the amount of HRK 57,922 thousand and the Group HRK 69,929 thousand (2021: Bank and Group HRK 32,225 thousand) included in Provisions for liabilities and expenses (Note 23).

41. DERIVATIVE INSTRUMENTS AND DEALINGS IN FOREIGN CURRENCIES

The Bank and Group uses derivative financial instruments to hedge economically its exposure to currency risk and interest rate risk arising from operating, financing and investing activities. In accordance with its investment policies, the Bank and Group does not hold or issue derivative financial instruments for the purpose of speculative trading. Hedge accounting has not been applied and consequently, all derivative agreements are classified as financial instruments at fair value through profit or loss.

Derivative financial instruments include foreign currency agreements, forward agreements, futures and other financial derivatives and are initially recognized at fair value which is the value of consideration paid to acquire the instrument less transaction costs. Subsequent to initial recognition, derivatives are measured at fair value. The fair value is determined based on the quoted market price or, if more appropriate, based on the discounted cash flow. All derivative instruments are presented as assets if their fair value is positive and as liabilities if their fair value is negative.

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed as an embedded derivative. Except as required to the contrary by the CNB, when the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and when the hybrid contract is not itself carried at fair value through profit or loss, the embedded derivative is treated as a separate derivative and classified at fair value through profit or loss with all unrealized gains and losses recognized in the P&L report, unless there is no reliable measure of their fair value. Changes in the fair value of derivatives are included in gains less losses arising from trading with securities.

41. DERIVATIVE INSTRUMENTS AND DEALINGS IN FOREIGN CURRENCIES (continued)

The Bank and Group had the following derivative contracts, accounted for as trading instruments, open at year-end:

Group and Bank	**Contracted Amount, Remaining Life**					**Fair value**	
2021 **HRK '000**	**Up to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Total**	**Assets**	**Liabilities**
Cross Currency Swap Contracts – OTC	515,143	-	-	-	515,143	363	232
Total	**515,143**	**-**	**-**	**-**	**515,143**	**363**	**232**

42. RELATED PARTY TRANSACTIONS

The Bank is the parent of the Hrvatska Poštanska Bank Group.

Key shareholders of the Bank are the Republic of Croatia as the largest shareholder with an ownership stake of 44.90 percent, and Hrvatska Pošta p.l.c. (“HP”) with a stake of 11.93 percent.

Other significant state-owned shareholders include: State agency for deposits insurance and bank resolution (“HAOD”), the Croatian Pension Insurance Institute (“HZMO”) and Fund for financing the decommissioning of the Krško Nuclear Power Plant and the disposal of radioactive waste and spent nuclear fuel (“NEK fund”). These shareholders together own 77.35% of the Bank's shares (2021: 77.42%). The remaining 22.65% (2021: 22.58%) are publicly traded.

a) Key Transactions with Related Parties

Hrvatska Pošta p.l.c. ("HP") performs domestic payment transactions for and on behalf of the Bank. Exposure to Hrvatska Pošta p.l.c. mainly comprises fees receivable based on domestic payment transactions performed for and on behalf of the Bank, as well as placements in debt securities issued by Hrvatska Pošta p.l.c. Liabilities towards Hrvatska Pošta p.l.c. mainly relate to demand and term deposits. Income and expenses mostly relate to commissions for services provided.

Exposure to the state is shown in Note 37, Concentration of assets and liabilities.

The exposure to members of HPB Group mainly consists of investment into share capital. The Bank performs payment transactions on behalf of its subsidiaries and, accordingly, recognizes income. Expenses payable to HPB-nekretnine relate to the services performed by the subsidiary in respect of estimation of collateral.

Key management did not have regular shares at the end of the reporting period (2021: -).

42. RELATED PARTY TRANSACTIONS (continued)

b) Amounts arising from transactions with related parties

Assets and liabilities and off-balance sheet exposure and income and expense as at and for the years ended December 31, 2022 and December 31, 2021 of the Group and Bank, arising from transactions with related parties were as follows:

Group

2022 **HRK '000**	**Exposure***	**Liabilities**	**Income**	**Expenses**
Key Shareholders				
Hrvatska Pošta p.l.c.	186,451	225,742	2,516	231,565
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	433	4,271	11	19,869
Long-Term Benefits (loans and deposits)	11,712	40	228	183
Total	**198,596**	**230,054**	**2,755**	**251,617**

2021 **HRK '000**	**Exposure***	**Liabilities**	**Income**	**Expenses**
Key Shareholders				
Hrvatska Pošta p.l.c.	185,341	204,964	229,728	227,562
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	373	2,800	21	19,871
Long-Term Benefits (loans and deposits)	3,599	486	203	201
Companies Under Significant Influence	-	-	6	-
Total	**189,313**	**208,250**	**229,958**	**247,634**

* The exposure includes advances in cash and in kind, contingent liabilities and commitments, interest and other receivables and includes HRK 19,372 thousand (2021: HRK 20,227 thousand) of off-balance sheet exposures. Expenses do not include value adjustments, unrealized gains / losses on securities or provisions for losses.

42. RELATED PARTY TRANSACTIONS (continued)

b) Amounts arising from transactions with related parties (continued)

Bank
2022

HRK '000	**Exposure***	**Liabilities**	**Income**	**Expenses**
Key Shareholders				
Hrvatska Pošta p.l.c.	186,451	225,742	2,516	231,565
Subsidiaries				
HPB Invest Ltd	5,074	4,308	2,259	-
HPB-nekretnine Ltd.	14,000	713	2,787	-
Pronam Nekretnine Ltd.	56,468	7	2,521	-
Nova hrvatska banka p.l.c.	1,943,146	15,673	13,781	5,232
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	328	4,271	9	18,093
Long-Term Benefits (loans and deposits)	10,661	40	201	-
Total	**2,216,128**	**250,754**	**24,073**	**254,890**

Bank
2021

HRK '000	**Exposure***	**Liabilities**	**Income**	**Expenses**
Key Shareholders				
Hrvatska Pošta p.l.c.	185,341	204,964	229,728	227,562
Subsidiaries				
HPB Invest Ltd	5,076	6,016	2,824	-
HPB-nekretnine Ltd.	4,875	6,734	314	1,937
Key Management Personnel				
Short-Term Benefits (bonuses, salaries and fees)	268	2,800	16	18,256
Long-Term Benefits (loans and deposits)	2,493	486	145	18
Companies Under Significant Influence	-	-	6	-
Total	**198,052**	**221,000**	**233,034**	**247,773**

* The exposure includes advances in cash and in kind, contingent liabilities and commitments, interest and other receivables and includes HRK 28,567 thousand (2021: HRK 20,236 thousand) of off-balance sheet exposures. Expenses do not include value adjustments, unrealized gains / losses on securities or provisions for losses.

Loans to key management are in Stage 1 and Stage 2.

c) State owned companies

Major shareholders of the Bank, which together own 77.35% of its shares, are state agencies or state-owned companies, all mainly funded from the State Budget. Accordingly, transactions and balances with other state-owned companies, including credit risk exposures guaranteed by the state, also represent related party relationships. The Bank has a significant exposure to these parties, which is disclosed in Note 37.

43. REPURCHASE AND RESALE AGREEMENTS

The Bank and Group enters into purchases (sales) of investments under agreements to resell (repurchase) essentially identical investments, or in a series of linked sales and buy-back transactions at a certain future date at a fixed price. The amounts paid are recognized in loans and advances to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the report of financial position and are measured in accordance with the accounting policy for the relevant financial asset at amortized cost or at fair value, as appropriate. The proceeds from the sale of the investments are presented as liabilities to either banks or customers.

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

The Bank and Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The financial instruments sold are not derecognized and the proceeds are accounted for as interest-bearing borrowings. At the end of the year the Bank and Group had assets sold under repurchase agreements as follows:

Group	Book Value of Liability HRK '000	Fair Value of Collaterals HRK '000
Loans to Customers – Repo Agreements		
2022	592,677	713,529
2021	401,790	451,720

Bank	Book Value of Liability HRK '000	Fair Value of Collaterals HRK '000
Loans to Customers – Repo Agreements		
2022	402,790	474,152
2021	401,790	451,720

Transactions above are recognized as repurchase agreements, in accordance with IFRS 9: Financial Instruments.

The Bank and Group also purchases financial instruments provided that they are re-sold at a contracted future date ("resale agreement"). The seller agrees to buy the same or similar instruments on the agreed future date. Re-sale is contracted as a client financing instrument and is recorded as loans and advances to customers and the purchased financial instrument is not recognized. At the year end the Bank and Group did not have reverse-repo agreement.

44. FUNDS MANAGED FOR AND ON BEHALF OF CORPORATE AND RETAIL CUSTOMERS

The Bank and Group manages funds for and on behalf of corporate and retail customers. These amounts do not represent the Bank's and Group's assets and are excluded from the report of financial position. For the services rendered, the Bank and Group charges a fee which is recognized in the P&L report on an accrued basis.

The Bank's subsidiary also manages six open-end funds with public offering (short-term bond: HPB Cash Fund, HPB Eurocash Fund, bond: HPB Bond Fund, mixed: HPB Global Fund, HPB Bond Fund Plus and equity fund: HPB Equity Fund).

Investment funds assets that is managed by the Bank is not part of consolidated reports of the Group.

The investment of the parent company in the investment funds of the parent company are stated at fair value through profit and loss.

Investment company

The fund has multiple unrelated investors and owns multiple investments. Ownership shares in the Fund are in the form of shares with limited liability that are classified as liabilities in accordance with IFRS 9 provisions. It is considered that the Fund meets the definition of an investment company according to IFRS 10, given that the following conditions exist:

1. 1The Fund acquired funds for the purpose of providing professional investment management services to its investors
2. The business purpose of the Fund, which was transferred directly to investors, is investment for capital appreciation and investment income, and
3. Investments are measured and evaluated on the basis of fair value.

Subsidiaries

The Group, together with other funds managed by the Bank, has subsidiaries as part of its investments. Investments held as part of investment portfolios are reported in the balance sheet at fair value. This treatment is allowed under IFRS 10, "Consolidation", which allows funds not to prepare consolidated financial statements but to recognize and measure the investments held in their portfolios at fair value through the profit and loss account and report them in accordance with IFRS 9, whereby changes in fair value are recognized in the statement of comprehensive income in the period of the change.

Although the Bank has a significant share in one of the funds, the key definition of control is not met. The management fee is in line with the average of similar funds on the market, i.e. it does not differ significantly or at all compared to the competition and mainly changes depending on market trends (there is no correlation of the increase in the fee in relation to the amount of shares) and there is no variable fee that the Group would realized based on the results of the Fund. The investment structure does not depend entirely on the fund manager or the Bank/Group, as it is mainly defined by law, and thus through the fund's prospectus itself. Over the years, the structure of the fund has not changed significantly and is in line with the structure of the main competitors' funds.

The Group manages funds on behalf of and for the account of legal entities, households and investment funds (including investment funds of the Group), which holds and manages assets or invests funds in various financial instruments at the client's request. For services provided, the Bank receives a fee income. This asset is not the Group's assets and is not recognized in the statement of financial position. The Group is not exposed to credit risks from such placements or guarantees for investments.

As at 31 December 2022, total assets under the custody of the Bank, including HPB Group funds, amounted to HRK 6.96 billion (2021: HRK 7.18 billion).

Furthermore, as at 31 December 2022, the total assets of investment and pension funds, for which the Bank operates as depositories, amounted to HRK 6.16 billion (2021: HRK 6.74 billion).

The Bank also manages other credit exposure, as follows:

	2022 HRK '000	2021 HRK '000
Assets		
Corporate	55,410	55,065
Retail	441,201	461,802
Giro Accounts	741,202	689,882
Total Assets	**1,237,812**	**1,206,749**
Liabilities		
Croatian Employment Office	64,293	63,910
Counties	9,924	9,999
Government of the Republic of Croatia	1,151,185	1,119,048
Croatian bank for reconstruction and development	6,837	9,062
Other Liabilities	5,574	4,729
Total Liabilities	**1,237,812**	**1,206,749**

45. AVERAGE INTEREST RATES

Average interest rates calculated as the weighted average of each category of interest-earning asset and interest-bearing liability, are presented below:

Group	Average interest rates 2022	Average interest rates 2021
Assets		
Cash and Amounts Due from Banks	(0.07%)	(0.10%)
Loans to and Receivables from Banks	1.81%	0.09%
Financial Assets at FV Through P&L	1.80%	1.68%
Financial Assets at FV through OCI	1.70%	1.46%
Financial Assets at Amortized Cost	1.07%	10.11%
Loans and Receivables from Customers	3.12%	3.39%
Liabilities		
Deposits from Banks	(1.25%)	(1.62%)
Customer Deposits	(0.10%)	(0.09%)
Borrowings	(0.63%)	(0.84%)

45. AVERAGE INTEREST RATES (continued)

Bank	Average interest rates 2022	Average interest rates 2021
Assets		
Cash and Amounts Due from Banks	(0.05%)	(0.10%)
Credits to and Receivables from Banks	1.89%	0.09%
Financial Assets at FV Through P&L	1.65%	1.68%
Financial Assets at FV through OCI	1.94%	1.46%
Financial Assets at Amortized Cost	1.06%	10.11%
Loans and Receivables from Customers	3.04%	3.39%
Liabilities		
Deposits from Banks	(1.89%)	(1.62%)
Customer Deposits	(0.05%)	(0.09%)
Borrowings	(0.77%)	(0.84%)

46. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, in an arm's-length transaction.

Financial instruments at fair value through profit or loss or financial assets at fair value through other comprehensive income are measured at fair value. Financial assets valued at amortized cost are measured at amortized cost less impairments. Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are disclosed at their fair value that arises from price quotes of these instruments on active markets. Financial liabilities at fair value through profit or loss are disclosed at fair values calculated on the basis of available conditions of these instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/ or disclosure purposes in these consolidated financial reports is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

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

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Set out below is an overview of key methods and assumptions used in estimating the fair values of financial instruments.

Loans
The fair value of loans and advances is calculated based on discounted expected future cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. Expected future cash flows are estimated considering credit risk and any indication of impairment including portfolio-based provisions for performing (i.e. A-risk rated) loans calculated at rates prescribed by the CNB. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. The Bank has a limited portfolio of loans with fixed rates, where there is a difference between the fair value and the carrying amount.

Investments carried at cost
For equity investments for which a quoted market price is not available, fair value is, where possible, estimated using discounted cash flow techniques. Estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the reporting date.

Bank and customer deposits
For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Borrowings
Most of the Bank's long-term debt has no quoted market price and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the reporting date to the Bank for new debt of similar type and remaining maturity.

The following table represents the Group's and Bank's estimate of the fair value hierarchy of financial instruments as of December 31, 2022 and December 31, 2021.

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Group December 31, 2022	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
FINANCIAL ASSETS MEASURED AT COST					
Cash and accounts with Banks	**11,091,437**	**Level 1**	**Cash and Cash Equivalents**	**11,091,437**	**-**
Mandatory Reserve with the Croatian National Bank	**-**	**Level 1**	**Cash Equivalent**	**-**	**-**
Loans to and Receivables from Banks	**201,571**	**Level 3**	**Cash Equivalent other than A> 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows**	**211,771**	**(10,200)**
Financial assets at amortized cost	**5,452,600**	**Level 1**	***Mark-to-Market* According to the Prices Quoted in an Active Market**	**6,001,779**	**(549,179)**
Loans and Receivables from Customers	**22,944,484**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**23,069,273**	**(124,790)**
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Financial Assets at Fair Value through P&L	**508,813**			**508,813**	**-**
- Ministry of Finance Bonds	381,243	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	381,243	-
- Corporate bonds and commercial bills	23,750	Level 1	Corporative bonds and commercial bills	23,750	-
- Open-End Investment Fund Investments	69,305	Level 1	Value of an Individual Share on Given Date	69,305	-
- Equity Securities	24,919	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	24,919	-
- fair value of forward contracts	363	Level 3	Iinternal model for valuing a currency swap contract by discounting future cash flows	363	-
1 Loans and Receivables from customers	4,965	Level 3	Present Value of Discounted Future Cash Flows	4,965	-
- Interest Receivables, not due	4,268	Not Applicable	Not Applicable	4,268	-
Financial Assets at Fair Value through Other Comprehensive income	**28,688**			**28,688**	**-**
- Equity Securities – Not Listed	26,000	Level 3	Equity Securities – Listed	26,000	-
- Equity Securities – Listed	2,688	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	2,688	-
- Interest Receivables, not due	-	Not Applicable	Not Applicable	-	.
Total Financial Assets	**40,227,594**			**40,911,762**	**(684,169)**
FINANCIAL LIABILITIES MEASURED AT COST					
Deposits from Banks	**381,463**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**374,231**	**(7,233)**
Customer Deposits	**34,595,858**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**34,594,738**	**(1,120)**
Borrowings	**2,533,695**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**2,527,537**	**(6,158)**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Financial Liabilities at Fair Value Through P&L	**232**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**232**	**-**
Total Financial Liabilities	**37,511,016**			**37,496,505**	**(14,511)**
TOTAL					**(698,680)**

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Group December 31, 2021	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
FINANCIAL ASSETS MEASURED AT COST					
Cash and Receivables from Banks	**6,192,555**	**Level 1**	**Cash and Cash Equivalents**	**6,192,555**	**-**
Mandatory Reserve with the Croatian National Bank	**1,326,442**	**Level 1**	**Cash Equivalent**	**1,326,442**	**-**
Loans to and Receivables from Banks	**289,806**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows**	**289,837**	**(31)**
Financial investments at amortized cost	**453**	**Level 3**	**Present Value of Future Discounted cash Flows**	**453**	**-**
Loans and Receivables from Customers	**13,985,258**	**Level 3**	**Present Value of Future Discounted Cash Flows**	**14,251,800**	**(266,542)**
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
- Ministry of Finance Treasury Bills	-	Level 2	Ministry of Finance Treasury Bills	-	-
- Ministry of Finance Bonds	483,499	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	483,499	-
- Corporate bonds and commercial bills	24,861	Level 1	Corporative bonds and commercial bills	24,861	-
- Open-End Investment Fund Investments	80,933	Level 1	Value of an Individual Share on Given Date	80,933	-
- Equity Securities	24,706	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	24,706	-
1 Loans and Receivables from customers	8,883	Level 3	Present Value of Discounted Future Cash Flows	8,883	-
- Interest Receivables, not due	3,104	Not Applicable	Not Applicable	3,104	
Financial Assets at Fair Value through OCI	**4,601,297**			**4,601,297**	**-**
- Ministry of Finance Treasury Bills	376,071	Level 2	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	376,071	-
- Ministry of Finance Bonds	3,953,844	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	3,953,844	-
- Foreign Country Securities	-	Level 1	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Corporate Bonds of State-Run Companies	195,219	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	195,219	-
- Corporate Bonds of Other Companies	-	Level 3	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Equity Securities – Not Listed	25,669	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B,	25,669	-
- Equity Securities – Listed	23,204	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	23,204	-
- Interest Receivables, not due	27,292	Not Applicable	Not Applicable	27,292	
Total Financial Assets	**27,021,798**			**27,288,371**	**(266,573)**
FINANCIAL LIABILITIES MEASURED AT COST					
Deposits from Banks	**28,025**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**28,025**	**-**
Customer Deposits	**23,414,833**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**23,412,844**	**(1,989)**
Borrowings	**1,410,402**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**1,396,886**	**(13,516)**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Financial Assets at Fair Value Through P&L	**-**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**-**	**-**
Total Financial Liabilities	**24,853,260**			**24,837,755**	**(15,505)**
TOTAL					**(282,078)**

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank December 31, 2022	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
FINANCIAL ASSETS MEASURED AT COST					
Cash and Receivables from Banks	**9,919,462**	**Level 1**	**Cash and Cash Equivalents**	**9,919,462**	**-**
Mandatory Reserve with the Croatian National Bank	**-**	**Level 1**	**Cash Equivalent**	**-**	**-**
Loans to and Receivables from Banks	**1,991,434**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows**	**1,994,752**	**(3,318)**
Financial assets at amortized cost	**4,927,511**	**Level 1**	***Mark-to-Market* According to the Prices Quoted in an Active Market**	**5,447,266**	**(519,755)**
Loans and Receivables from customers	**15,749,996**	**Level 3**	**Present Value of Discounted Future Cash Flows**	**15,873,713**	**(123,717)**
FINANCIAL ASSETS MEASURED AT FAIR VALUES					
Financial Assets at Fair Value through P&L	**419,087**		**Financial Assets at Fair Value through P&L**	**419,087**	**-**
- Ministry of Finance Treasury Bills	-	Level 2	Ministry of Finance Treasury Bills	-	-
- Ministry of Finance Bonds	291,689	Level 1	*Mark-to-Market According to the Prices Quoted in an Active Market*	291,689	-
- Corporative bonds and commercial bills	23,750	Level 1	Corporative bonds and commercial bills	23,750	-
- Open-End Investment Fund Investments	69,305	Level 1	Value of an Individual Share on Given Date	69,305	-
- Equity Securities	24,919	Level 1	*Mark-to-Market According to the Prices Quoted in an Active Market*	24,919	-
- Fair value of future contracts	363	Level 3	Iinternal model for valuing a currency swap contract by discounting future cash flows	363	-
Loans and Receivables from customers	4,965	Level 3	Present Value of Discounted Future Cash Flows	4,965	-
- Interest Receivables, not due	4,096	Not Applicable	Not Applicable	4,096	-
Financial Assets at Fair Value through OCI	**28,547**		**Financial Assets at Fair Value through OCI**	**28,547**	**-**
- Equity Securities – Not Listed	26,000	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B,	26,000	-
- Equity Securities – Listed	2,547	Level 1	*Mark-to-Market According to the Prices Quoted in an Active Market*	2,547	-
- Interest Receivables, not due	-	Not Applicable	Not Applicable	-	-
Total Financial Assets	**33,036,038**			**33,682,827**	**(646,789)**
FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST					
Deposits from Banks	**224,429**	**Level 3**	**Internal valuation Model for FX Contracts Using Future Cash Flows**	**217,196**	**(7,233)**
Customer Deposits	**29,347,330**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**29,346,210**	**(1,120)**
Borrowings	**1,795,854**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**1,789,696**	**(6,158)**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Financial Liabilities at Fair Value Through P&L	**232**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**232**	**-**
Total Financial Liabilities	**31,367,845**			**31,353,102**	**(14,743)**
TOTAL					**(661,532)**

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank December 31, 2021	Fair Value	Fair Value Level	Valuation Technique(s) and Key input(s)	Book Value	Unrecognized Gains/ (Losses)
FINANCIAL ASSETS MEASURED AT COST					
Cash and accounts with Banks	**6,192,515**	**Level 1**	**Cash and Cash Equivalents**	**6,192,515**	**-**
Mandatory Reserve with the Croatian National Bank	**1,326,442**	**Level 1**	**Cash Equivalent**	**1,326,442**	**-**
Loans to and Receivables from Banks	**289,806**	**Level 3**	**Cash Equivalent other than Assets with a Defined Maturity > 30 days at a Fixed Rate, Where the Fair Value is the Present Value of Discounted Cash Flows**	**289,837**	**(31)**
Financial Assets Measured At Fair Value	**453**	Level 3	**Present Value of Discounted Future Cash Flows**	**453**	**-**
Loans and receivables from customers	**13,985,258**	**Level 3**	**Present Value of Discounted Future Cash Flows**	**14,251,800**	**(266,542)**
FINANCIAL ASSETS MEASURED AT FAIR VALUE					
Financial Assets at Fair Value through P&L	**625,986**		**Financial Assets at Fair Value through P&L**	**625,986**	**-**
- Ministry of Finance Treasury Bills	-	Level 2	Ministry of Finance Treasury Bills	-	-
- Ministry of Finance Bonds	483,499	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	483,499	-
- Corporative bonds and commercial bills	24,861	Level 1	Corporative bonds and commercial bills	24,861	-
- Open-End Investment Fund Investments	80,933	Level 1	Value of an Individual Share on Given Date	80,933	-
- Equity Securities	24,706	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	24,706	-
Loans and Receivables from customers	8,883	Level 3	Present Value of Discounted Future Cash Flows	8,883	-
- Interest Receivables, not due	3,104	Not Applicable	Not Applicable	3,104	-
Financial Assets at Fair Value through OCI	**4,601,297**		**Financial Assets at Fair Value through OCI**	**4,601,297**	**-**
- Ministry of Finance Treasury Bills	376,071	Level 2	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	376,071	-
- Ministry of Finance Bonds	3,953,844	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	3,953,844	-
- Foreign Country Securities	-	Level 1	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Corporate Bonds of State-Run Companies	195,219	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	195,219	-
- Corporate Bonds of Other Companies		Level 3	*Mark-to-Model* Using Internal Model for Determining the Present Values of Future Cash Flows	-	-
- Equity Securities – Not Listed	25,669	Level 3	Method of Comparable Companies, Average of standard multiples EV/ EBITDA, P/ E, P/ S, P/ B,	25,669	-
- Equity Securities – Listed	23,204	Level 1	*Mark-to-Market* According to the Prices Quoted in an Active Market	23,204	-
- Interest Receivables, not due	27,292	Not Applicable	Not Applicable	27,292	-
Total Financial Assets	**27,021,758**			**27,288,330**	**(266,573)**
FINANCIAL LIABILITIES MEASURED AT COST					
Deposits from Banks	**28,025**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**28,025**	**-**
Customer Deposits	**23,424,078**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**23,422-089**	**(1,989)**
Borrowings	**1,410,402**	**Level 3**	**Present Value of Discounted Cash Flows Under Currently Effective Interest Rates**	**1,396,886**	**(13,516)**
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE					
Financial liabilities at fair value through P&L	**-**	**Level 3**	**an internal model for valuing a currency swap contract by discounting future cash flows**	**-**	**-**
Total Financial Liabilities	**24,862,505**			**24,847,000**	**(15,505)**
TOTAL					**(282,078)**

46. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Input data not visible for Level 3 measurement

In the case when the fair value of a financial asset is obtained from input parameters that are not visible in the market, then these parameters can be obtained with other alternative parameters. To compile the Statement of financial position, parameters are used that reflect the market situation on the day of the report.

The range of invisible valuation parameters used to measure Level 3 are shown in the following table:

Group and Bank					31.12.2022
Financial asset	**Instrument type**	**Fer value**	**Valuation Technique(s)**	**Key input(s) not visible**	**Input ranges that are not visible**
Financial Assets at Fair Value through P&L	Loans and Receivables from Customers	4,965	Present Value of Discounted Future Cash Flows	Discount rate	3,0%-3,1%
Financial Assets at Fair Value through OCI	- Equity Securities – Not Listed	24,295	calculation based on the conversion factor and share price on the primary market	Conversion factor	3,645 and 100

Group and Bank					31.12.2021
Financial asset	**Instrument type**	**Fer value**	**Valuation Technique(s)**	**Key input(s) not visible**	**Input ranges that are not visible**
Financial Assets at Fair Value through P&L	Loans and Receivables from Customers	7,352	Present Value of Discounted Future Cash Flows	Discount rate	3,35%-3,45%
Financial Assets at Fair Value through OCI	- Equity Securities – Not Listed	23,964	calculation based on the conversion factor and share price on the primary market	Conversion factor	6,829 and 100

47. ENCUMBERED ASSETS OF THE CREDIT INSTITUTION

HPB Group and the Bank under the term encumbered assets implies the pledged assets, given as collateral, subject to some form of pledge or serves to improve the credit position from which it cannot be withdrawn freely. Also, the assets for which the withdrawal must be previously approved are considered to be encumbered assets

In the structure of assets, the Bank has recorded encumbered assets in the amount of HRK 1,548,914 thousand (2021: HRK 2,080,941 thousand). The carrying amount of the Bank's encumbered assets in relation to the Bank's balance sheet total is 4.50 percent of the Bank's assets. On HPB Group level encumbered assets amounts HRK 1,877,664 thousand or 4.50 percent of the consolidated assets of HPB Group.

In the encumbered assets of HPB Group as of 31.12.2022 included deposits with the CNB that served as collateral for received euro cash related to the process of introducing EUR as the official currency in the Republic of Croatia, in the amount of HRK 867,992 thousand (of which HPB p.l.c. HRK 785,083 thousand), while funds set aside on the basis of kuna and foreign currency mandatory reserves that were set aside in accounts with the CNB, paid back into the Bank's NKS system. Furthermore, the encumbered assets is represented by a pledge of debt securities of the Republic of Croatia based on repo loans taken from the CNB, in the total amount of HRK 715,341 thousand (in which HPB p.l.c. HRK 474,152 thousand).

The remaining amount of encumbered assets refers to a pledged loan in the amount of HRK 271,889 thousand as a pledge for a foreign currency loan received from the European Investment Bank and guarantee deposits in the amount of HRK 20,819 thousand and other deposits of HRK 1,624 thousand.

Table form of encumbered assets of the Group and Bank are presented as at December 31, 2022 and December 31, 2021:

	31.12.2022		31.12.2021*	
Group **HRK '000**	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Securities	715,341	715,341	451,720	451,720
Mandatory Reserve and Balances on Nostro Accounts on Which Mandatory Reserve is Maintained	867,992	867,992	1,326,442	1,326,442
Loans to Customers and Other Assets	294,331	294,331	302,779	302,779
Total	**1,877,664**	**1,877,644**	**2,080,941**	**2,080,941**

	31.12.2022		31.12.2021*	
Bank **HRK '000**	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Debt Securities	474,152	474,152	451,720	451,720
Calculated mandatory reserve and maintenance accounts	785,083	785,083	1,326,442	1,326,442
Loans to Customers and Other Assets	289,678	289,678	302,779	302,779
Total	**1,548,914**	**1,548,914**	**2,080,941**	**2,080,941**

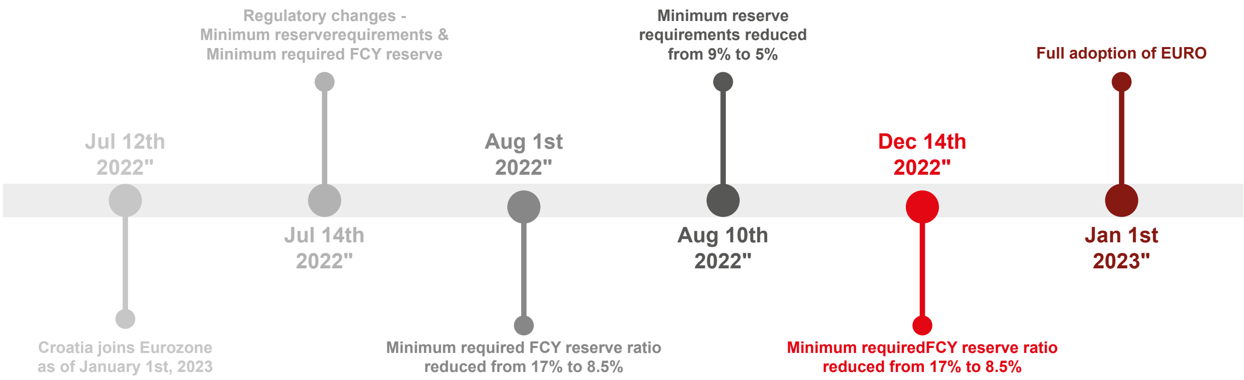
*The Bank acquired an ownership stake in NHB p.l.c. on April 14, 2022, and accordingly for the year 2021, the data on encumbered assets is the same for the Group and the Bank.

48. EVENTS AFTER THE REPORTING DATE

INTRODUCTION OF EURO

As of January 1st 2023 Croatia will join the Eurozone monetary union. This will represent significant changes in management of excess liquidity, such as direct access to euro money market and monetary operations, which also implies a major shift in managing financial assets. The introduction of the euro as the official currency in the Republic of Croatia represents a change in the functional currency that will be calculated prospectively and does not represent a post balance sheet event requiring an adjustment of the amounts in these financial statements.

Croatia's accession to the monetary union triggered regulatory changes which represent full alignment with ECB regulatory framework as of January, 1st 2023 such as decreased Minimum Reserve and Minimum required foreign currency reserves, which will result in significant liquidity surplus. Access to monetary union will also enable elimination of exchange rate differences, decline in country risk premium (lower borrowing rates), increase in liquidity of the domestic capital market, reduction of payment transaction costs, strengthening of competition (business optimization).



In the period from 1.10.2022 until 31.12.2022, the Bank's network was supplied with euro cash through the frontloading process. Through the process of sub-frontloading and simplified sub-frontloading to business entities, the Bank's clients are provided with euro cash for their needs, and for use after January 1, 2023. In the period from 1.12.2022 until 31.12.2022 in the Bank's centers and post offices of the Croatian Post, it was possible to sell initial packages of euro coins to retail and corporate clients. The frontloading process was concluded on December 31, 2022, and euro cash taken from the frontloading from 1.1.2023 is used for regular operations in the Bank's network.

	Group	Bank
	31.12.2022 HRK '000	31.12.2022 HRK '000
Cash frontloading- central treasury	60,353	1,059
Cash frontloading- branches	189,434	178,901
Cash frontloading- ATMs	144,242	141,362
Cash frontloading- HP and FINA	339,804	338,189
Cash frontloading- other	75,402	1,080
Total	**809,235**	**660,592**

MERGER OF COMPANY PRONAM NEKRETNINE LTD.

On March 14, 2023, the company Pronam Nekretnine Ltd. for real estate business, equipment rental, brokerage and trade was merged with the Bank based on the Merger Agreement dated 11.11.2022, the Decision of the Croatian National Bank on the approval of the merger dated 23.2.2023 and Decision of the General Assembly of Pronam Nekretnine Ltd. from 8.3.2023.

Statement of Financial Position as at 31 December 2022

Item	ADP code	Last day of the preceding business year	Current period
1	2	3	4
Assets			
Cash, cash balances at central banks and other demand deposits (from 002 to 004)	**001**	**6,177,602,131**	**9,919,216,704**
Cash in hand	**002**	1,422,548,361	950,176,438
Cash balances at central banks	**003**	4,339,757,848	8,883,505,909
Other demand deposits	**004**	415,295,922	85,534,357
Financial assets held for trading (from 006 to 009)	**005**	**616,670,614**	**412,244,729**
Derivatives	**006**	-	362,720
Equity instruments	**007**	105,639,274	94,223,884
Debt securities	**008**	511,031,340	317,658,125
Loans and advances	**009**	-	-
Non-trading financial assets mandatorily at fair value through profit or loss (from 011 to 013)	**010**	**9,316,729**	**6,842,780**
Equity instruments	**011**	-	-
Debt securities	**012**	-	-
Loans and advances	**013**	9,316,729	6,842,780
Financial assets at fair value through profit or loss (015 + 016)	**014**	**-**	**-**
Debt securities	**015**	-	-
Loans and advances	**016**	-	-
Financial assets at fair value through other comprehensive income (from 018 to 020)	**017**	**4,601,319,906**	**28,547,398**
Equity instruments	**018**	48,896,784	28,547,398
Debt securities	**019**	4,552,423,122	-
Loans and advances	**020**	-	-
Financial assets at amortised cost (022 + 023)	**021**	**15,955,565,325**	**23,390,612,112**
Debt securities	**022**	454,371	5,447,265,274
Loans and advances	**023**	15,955,110,954	17,943,346,838
Derivatives - hedge accounting	**024**	**-**	**-**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**025**	-	-
Investments in subsidiaries, joint ventures and associates	**026**	9,760,843	101,105,343
Tangible assets	**027**	310,680,257	318,549,644
Intangible assets	**028**	93,319,300	99,979,902
Tax assets	**029**	642,640	22,650,486
Other assets	**030**	50,579,782	81,759,383
Fixed assets and disposal groups classified as held for sale	**031**	**9,200,000**	**-**
Total assets (001 + 005 + 010 + 014 + 017 + 021 + from 024 to 031)	**032**	**27,834,657,527**	**34,381,508,481**

Statement of Financial Position as at 31 December 2022 (continued)

Item	ADP code	Last day of the preceding business year	Current period
1	2	3	4
Liabilities			
Financial liabilities held for trading (from 34 to 38)	**033**	**-**	**533.449**
Derivatives	**034**	-	533,449
Short positions	**035**	-	-
Deposits	**036**	-	-
Debt securities issued	**037**	-	-
Other financial liabilities	**038**	-	-
Financial liabilities at fair value through profit or loss (from 40 to 42)	**039**	-	-
Deposits	**040**	-	-
Debt securities issued	**041**	-	-
Other financial liabilities	**042**	-	-
Financial liabilities measured at amortised cost (from 44 to 46)	**043**	**24,599,744,662**	**31,369,828,625**
Deposits	**044**	24,505,320,711	31,288,352,875
Debt securities issued	**045**	**-**	**-**
Other financial liabilities	**046**	94,423,951	81,475,750
Derivatives - hedge accounting	**047**	**-**	**-**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**048**	**-**	**-**
Provisions	**049**	**341,273,561**	**144,655,132**
Tax liabilities	**050**	**64,392,779**	**11,072,042**
Share capital repayable on demand	**051**	**-**	**-**
Other liabilities	**052**	**178,816,674**	**240,984,184**
Liabilities included in disposal groups classified as held for sale	**053**	**-**	**-**
Total liabilities (33 + 39 + 43 + from 47 to 53)	**054**	**25,184,227,676**	**31,767,073,432**
Equity			
Capital	**055**	1,214,775,000	1,214,775,000
Share premium	**056**	-	-
Equity instruments issued other than capital	**057**	-	-
Other equity	**058**	-	-
Accumulated other comprehensive income	**059**	240,193,702	60,431,930
Retained profit	**060**	291,352,537	544,642,603
Revaluation reserves	**061**	-	-
Other reserves	**062**	702,479,098	661,979,683
(–) Treasury shares	**063**	(477,000)	-
Profit or loss attributable to owners of the parent	**064**	202,106,513	132,605,834
(-–) Interim dividends	**065**	-	-
Minority interests [non-controlling interests]	**066**	-	-
Total equity (from 55 to 66)	**067**	**2,650,429,850**	**2,614,435,050**
Total equity and liabilities (54 + 67)	**068**	**27,834,657,526**	**34,381,508,482**

Statement of Profit or Loss for 2022

Item	ADP code	Same period of the previous year	Current period
1	2	3	4
Interest income	001	560,475,074	564,056,257
(Interest expenses)	002	36,363,820	32,015,271
(Expenses on share capital repayable on demand)	003	-	-
Dividend income	004	2,043,665	2,548,939
Fees and commissions income	005	482,976,369	522,382,353
(Fees and commissions expenses)	006	290,099,614	315,407,654
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	007	671,529	3,046,848
Gains or (-) losses on financial assets and liabilities held for trading, net	008	59,962,657	(8,011,956)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	009	30,491,412	(48,152)
Gains or (-) losses on derecognition of financial assets and liabilities at fair value through profit or loss, net	010	-	-
Gains or (-) losses from hedge accounting, net	011	-	-
Exchange rate differences [gain or (-) loss], net	012	(7,592,753)	(3,068,994)
Gains or (-) losses on derecognition of of investments in subsidiaries, joint ventures and associates, net	013	-	-
Gains or (-) losses on derecognition of non-financial assets, net	014	-	-
Other operating income	015	18,529,530	20,242,534
(Other operating expenses)	016	19,815,032	12,073,635
Total operating income, net (1 – 2 – 3 + 4 + 5 – 6 + from 7 to 15 – 16)	**017**	**801,279,017**	**741,651,269**
(Administrative expenses)	018	408,674,319	457,168,913
(Cash contributions to resolution boards and deposit guarantee schemes)	019	13,916,357	24,764,336
(Depreciation)	020	67,020,386	70,057,109
Modification gains or (-) losses, net	021	(4,328,639)	(3,573,879)
(Provisions or (-) reversal of provisions)	022	306,219	49,666,007
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	023	63,262,189	(21,451,740)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	024	-	-
(Impairment or (-) reversal of impairment on non-financial assets)	025	(1,903,399)	(557,027)
Negative goodwill recognised in profit or loss	026	-	-
Share of the profit or (-) losses of investments in subsidiaries, joint ventures and associates accounted for using the equity method	027	-	-
Profit or (-) loss from fixed assets and disposal groups classified as held for sale not qualifying as discontinued operations	028	-	-
Profit or (-) loss before tax from continuing operations (17 – 18 to 20 + 21 - from 22 to 25 + from 26 to 28)	029	245,674,307	158,429,792
(Tax expense or (-) income related to profit or loss from continuing operations)	030	43,567,794	25,823,958
Profit or (-) loss after tax from continuing operations (29 – 30)	031	202,106,513	132,605,834
Profit or (-) loss after tax from discontinued operations (33 – 34)	032	-	-
Profit or (-) loss before tax from discontinued operations	033	-	-
(Tax expense or (-) income related to discontinued operations)	034	-	-
Profit or (–) loss for the year (31 + 32; 36 + 37)	**035**	**202,106,513**	**132,605,834**
Attributable to minority interest [non-controlling interests]	036	-	-
Attributable to owners of the parent	037	202,106,513	132,605,834

Statement of Other Comprehensive income for 2022

Item	ADP code	Same period of the previous year	Current period
1	2	4	5
STATEMENT OF OTHER COMPREHENSIVE INCOME			
Income or (-) loss for the current year	**038**	**202,106,513**	**132,605,834**
Other comprehensive income (40+ 52)	**039**	**(24,780,853)**	**(179,761,773)**
Items that will not be reclassified to profit or loss (from 41 to 47 + 50 + 51)	**040**	**1,831,095**	**12,200,944**
Tangible assets	**041**	6,411,028	12,387,082
Intangible assets	**042**	-	-
Actuarial gains or (-) losses on defined benefit pension plans	**043**	(2,968,225)	-
Fixed assets and disposal groups classified as held for sale	**044**	-	-
Share of other recognised income and expense of entities accounted for using the equity method	**045**	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	**046**	-	-
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	**047**	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	**048**	-	2,492,118
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	**049**	-	-
Fair value changes of financial liabilities measured at fair value through profit or loss attributable to changes in their credit risk	**050**	-	-
Income tax relating to items that will not be reclassified	**051**	(1,611,708)	(2,678,256)
Items that may be reclassified to profit or loss (from 53 to 60)	**052**	**(26,611,948)**	**(191,962,717)**
Hedge of net investments in foreign operations [effective portion]	**053**	-	-
Foreign currency translation	**054**	-	-
Cash flow hedges [effective portion]	**055**	-	-
Hedging instruments [not designated elements]	**056**	-	-
Debt instruments at fair value through other comprehensive income	**057**	(32,525,728)	(234,100,875)
Fixed assets and disposal groups classified as held for sale	**058**	-	-
Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	**059**	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	**060**	5,913,780	42,138,158
Total comprehensive income for the current year (38 + 39; 62 + 63)	**061**	**177,325,660**	**(47,155,939)**
Attributable to minority interest [non-controlling interest]	**062**	-	-
Attributable to owners of the parent	**063**	177,325,660	(47,155,939)

Statement of Changes in Equity for 2022

Sources of equity changes	ADP code	Attributable to owners of the parent											Non-controlling interest		Total
		Equity	Share premium	Equity instruments issued other than capital	Other equity	Accumulated other compre-hensive income	Retained profit	Revaluation reserves	Other reserves	( ) Treasury shares	Profit or (-) loss attributable to owners of the parent	(-) Interim dividends	Accumulated other compre-hensive income	Other items	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Opening balance [before restatement]	001	1,214,775,000	-	-	-	240,193,703	291,352,537	-	702,479,098	(477,000)	202,106,513	-	-	-	2,650,429,851
Effects of error corrections	002	-	-	-	-	-	(5,782,313)	-	-	-	-	-	-	-	(5,782,313)
Effects of changes in accounting policies	003	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance [current period] (1 + 2 + 3)	004	1,214,775,000	-	-	-	240,193,703	285,570,224	-	702,479,098	(477,000)	202,106,513	-	-	-	2,644,647,538
Ordinary shares issue	005	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preference shares issue	006	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	007	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	008	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of receivables to equity instruments	009	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	010	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	011	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	012	-	-	-	-	-	-	-	-	(204,600)	-	-	-	-	(204,600)
Sale or cancellation of treasury shares	013	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	014	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	015	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	016	-	-	-	-	-	192,001,187	-	-	-	(192,001,187)	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	017	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	018	-	-	-	-	-	-	-	-	681,600	-	-	-	-	681,600
Other increase or (-) decrease in equity	019	-	-	-	-	-	67,071,192	-	(40,499,415)	-	(10,105,326)	-	-	-	16,466,451
Total comprehensive income for the current year	020	-	-	-	-	(179,761,773)	-	-	-	-	132,605,834	-	-	-	(47,155,939)
Closing balance [current period] (from 4 to 20)	021	1,214,775,000	-	-	-	60,431,930	544,642,603	-	661,979,683	-	132,605,834	-	-	-	2,614,435,050

Cash Flow Statement for 2022

	2022 HRK '000	2021 HRK '000
Operating Activities and Impairment		
1. Profit/ (Loss) Before Tax	158,430	245,675
2. Impairment Losses and Provisions	19,344	66,116
3. Depreciation and Amortization	70,057	67,020
4. Net Unrealized (Losses)/ Gains on Financial Assets and Liabilities at Fair Value	8,963	(83,170)
5. Gains/ (Losses) on Sale of Tangible Assets	(967)	(5,029)
6. Other Non-monetary Items	(592,736)	(518,562)
Changes in Operating Assets		
7. CNB Deposits	1,326,442	(107,285)
8. Treasury Bills of the Ministry of Finance and the CNB bills	(564,647)	(4,727)
9. Loans and Advances to Other Customers	(1,548,783)	446,381
10. Securities and Other Financial Instruments at Fair Value through OCI	1,545,344	-
11. Securities and Other Financial Instruments Held for Trading	202,579	172,074
12. Securities and Other Financial Instruments Not Actively Trading and Measured at Fair Value through P&L	-	-
13. Securities and Other Financial Instruments Mandatory at Fair Value through P&L	-	-
14. Securities and Other Financial Instruments Measured at Amortized Cost	(2,529,332)	1,534
15. Other Operating Assets	18,949	(19,526)
Net Increase/ Decrease in Operating Liabilities		
16. Deposits from Financial Institutions	186,851	(69,619)
17. Transaction Accounts of Other Customers	3,127,983	890,116
18. Saving Deposits of Other Customers	2,833,581	1,918,207
19. Term Deposits of Other Customers	(50,297)	(775,064)
20. Derivative Financial Liabilities and Other Liabilities Not for Trading	232	(21)
21. Other Liabilities	55,759	236,166
22. Collected Interest from Operating Activities	453,457	484,505
23. Received Dividend from Operating Activities	-	-
24. Paid Interest from Operating Activities	(26,617)	(30,807)
25. Income Tax Paid	(42,340)	2,098
A) Net Cash Flows from Operating Activities	**4,652,252**	**2,916,082**
Investing Activities		
1. Proceeds from Sale/ (Payments for Purchases) of Tangible and Intangible Assets	(73,801)	(47,009)
2. Proceeds from Sale of/ Payments for Investments in Subsidiaries, Associates and Joint Ventures	(91,344)	-
3. Proceeds from/ (Payments to Acquire) Securities and Other Financial Instruments from Investing Activities	-	(369,725)
4. Dividends Received from Investing Activities	2,549	2,044
5. Other inflows / outflows from Investing Activities	-	-
B) Net Cash Flows from Investing Activities	**(162,596)**	**(414,690)**
Financing Activities		
1. Net Increase/ (Decrease) in Borrowings from Financing Activities	394,458	(57,279)
2. Net Increase/ (Decrease) in Issued Debt Securities	-	-
3. Net increase / (Decrease) of Additional Capital Instruments	-	-
4. Increase in Share Capital	-	-
5. Dividend Paid	-	-
6. Other inflows / outflows from Financing Activities	(18,321)	(24,343)
C) Net Cash Flows from Financing Activities	**376,137**	**(81,622)**
D) Net Increase in Cash and Cash Equivalents	**4,865,793**	**2,419,770**
Cash and Cash Equivalents at the Beginning of the Year	**6,501,311**	**4,081,541**
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents	**-**	**-**
Cash and Cash Equivalents at the End of the Year	**11,367,104**	**6,501,311**

Statement of Financial Position Reconciliation as at 31 December 2022

ASSETS

Statutory reporting

Regulatory reporting

in HRK '000	Regulatory reporting	Cash and amounts due from banks	Mandatory reserve with CNB	Loans and receivables from banks	Financial assets at fair value through profit and loss	Financial assets at fair value through other compre- hensive income	Financial assets ant amortized cost	Loans and receivables from customers	Assets held for sale	Investments in subsidiaries	Property and land	Investment property	Intangible assets	Net deferred tax assets	Tax prepayment	Other assets	Reconciliation between statutory and regulatory reporting
Cash in register	950,176	(950,176)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits with the CNB	8,883,506	(8,883,506)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other a vista deposits	85,534	(85,704)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(169)
Financial assets held for trading	412,245	-	-	-	(412,244)	-	-	-	-	-	-	-	-	-	-	-	(15)
Financial assets non for trading, mandatory measured at fair value through profit and loss	6,843	-	-	-	(6,843)	-	-	-	-	-	-	-	-	-	-	-	(2)
Financial assets at fair value through other comprehensive income	28,567	-	-	-	-	(28,547)	-	-	-	-	-	-	-	-	-	-	20
Financial assets measured at amortized cost - debt securities	5,447,264	-	-	-	-	-	(5,447,266)	-	-	-	-	-	-	-	-	-	(4)
Financial assets measured at amortized cost - loans	17,943,347	-	-	(1,994,752)	-	-	-	(15,896,018)	-	-	-	-	-	-	-	-	52,576
Investments in subsidiaries, joint ventures and associates	101,105	-	-	-	-	-	-	-	-	(101,105)	-	-	-	-	-	-	-
Tangible assets (less depreciation)	318,550	-	-	-	-	-	-	-	-	-	(293,978)	(44,357)	21,583	-	-	(1,797)	-
Intangible assets	99,980	-	-	-	-	-	-	-	-	-	-	-	(99,980)	-	-	-	-
Tay assets	22,650	-	-	-	-	-	-	-	-	-	-	-	-	(22,545)	-	(106)	-
Other assets	81,759	(76)	-	-	-	-	-	22,305	-	-	-	-	-	-	-	(156,367)	(52,379)
Non current assets and disposable groups classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	**34,381,508**	**(9,919,462)**	**-**	**(1,994,752)**	**(419,087)**	**(28,547)**	**(5,447,266)**	**(15,873,713)**	**-**	**(101,105)**	**(293,978)**	**(44,357)**	**(78,397)**	**(22,545)**	**-**	**(158,271)**	**28**

1. Item Cash in hand in the amount of HRK 950,176 thousand, Other demand deposits in the amount of HRK 85,534 thousand, Financial assets at fair value through other comprehensive income in the amount of HRK 28,547 thousand, Financial assets at amortized cost\Debt securities in the amount of 5,447,264 HRK thousand, Financial assets at amortized cost\Loans and advances in the amount of HRK 17,943,347 thousand, Tax assets in the amount of HRK 22,650 thousand HRK, Other assets in the amount of HRK 81,759 thousand, Financial liabilities measured at amortized cost in the amount of HRK 31,369,829 thousand, Provisions in the amount of HRK 144,655 thousand, Tax liabilities in the amount of HRK 11,072 thousand, and Other liabilities in the amount of HRK 240,984 thousand within the prescribed reports are shown within the items Cash and bank accounts in the amount of HRK 950,176 thousand, Financial assets at fair value through other comprehensive income in the amount of HRK 28,547 thousand, Financial investments at amortized cost in the amount of

HRK 5,447,264 thousand, Loans and receivables from banks in the amount HRK 1,994,752 thousand, Loans and receivables from clients in the amount of HRK 15,896,018 thousand, Real estate, plants and equipment in the amount of HRK 293,978 thousand, Investment in real estate in the amount of HRK 44,357 thousand, Other assets in the amount of HRK 158,271 thousand, Bank deposits in the amount of HRK 217,196 thousand, Deposits customers in the amount of HRK 29,346,210 thousand, Loans taken in the amount of HRK 1,789,696 thousand, Provisions for liabilities and expenses HRK 143,693 thousand, and Other liabilities in the amount of HRK 270,017 thousand in the Basic Financial Statements.

2. The amount of HRK 101,105 thousand stated on the item Investments in subsidiaries, joint ventures and associated companies in the prescribed financial statements, it is shown on the item Investments in subsidiaries in the Basic financial statements
3. The amount of 11,072 deferred tax liabilities is shown in the prescribed financial statements under the item Tax liabilities within liabilities, while in the Basic financial statements netted on the item Net deferred tax assets/liabilities

	Statutory reporting								
in HRK '000	**Regulatory reporting**	**Financial liabilities at fair value through profit and loss**	**Deposits from banks**	**Customer deposits**	**Borrowing**	**Provision for liabilities and expenses**	**Current tax liability**	**Other liabilities**	**Reconciliation between statutory and regulatory reporting**
Financial liabilities held for trading	533	(232)	-	-	-	-	-	(301)	-
Financial liabilities at amortized cost	9	-	(217,196)	(29,358,976)	(1,789,696)	-	-	-	1
Provisions	144,655	-	-	-	-	(136,775)	-	(7,880)	-
Tax liabilities	11,072	-	-	-	-	-	-	-	11,072
Other liabilities	240,984	-	-	12,766	-	(6,918)	-	(261,836)	(15,004)
Total liabilities	**31,767,073**	**(232)**	**(217,196)**	**(29,346,210)**	**(1,789,696)**	**(143,693)**	**-**	**(270,017)**	**28**

EQUITY

			Statutory reporting									
in HRK '000		Regulatory reporting	Share capital	Capital gain	Treasury shares	Reserves for treasury shares	Statutory reserves	Other reserves	Fair value reserve	Revaluation reserve	Retained earning/ (recovered loss)	Reconciliation between statutory and regulatory reporting
Regulatory reporting – Distributable to parent equity holders	Share capital	1,214,775	(1,214,775)	-	-	-	-	-	-	-	-	-
	Premium on equity	-	-	-	-	-	-	-	-	-	-	-
	Issued equity instruments	-	-	-	-	-	-	-	-	-	-	-
	Other equity instruments	-	-	-	-	-	-	-	-	-	-	-
	Accumulated other comprehensive income	60,432	-	-	-	-	-	-	(22,731)	(37,701)	-	-
	Retained earnings	544,643	-	-	-	-	-	-	-	-	(544,643)	-
	Revaluation reserves	-	-	-	-	-	-	-	-	-	-	-
	Other reserves	661,980	-	-	-	(4,477)	(50,115)	(607,387)	-	-	-	-
	Treasury equities	-	-	-	-	-	-	-	-	-	-	-
	Profit or loss belonging to mother company owners	132,606	-	-	-	-	-	-	-	-	(132,606)	-
	Dividends during business year	-	-	-	-	-	-	-	-	-	-	-
Minority interest	Accumulated other comprehensive income	-	-	-	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-	-	-	-
	TOTAL EQUITY	**2,614,435**	**(1,214,775)**	**-**	**-**	**(4,477)**	**(50,115)**	**(607,387)**	**(22,731)**	**(37,701)**	**(677,249)**	**-**

Statement of Changes in Equity

Except for differences in terminology between regulatory and statutory financial reports, the reconciliation refers to:

- Other reserves in regulatory financial report are within treasury shares reserves, statutory reserves and other reserves in the statutory financial reports
- Accumulated other comprehensive income in the regulatory financial reports is within items fair value reserve and revaluation reserve in the statutory financial reports
- Profit / loss attributable to mother company owners in regulatory financial reports is within the item retained earnings / (uncovered loss) in the statutory financial reports

Statement of Profit or Loss for 2022

in HRK '000	Total regulatory reporting	Statutory reporting: Interests and similar income	Interests and similar expense	Fees and commission income	Fees and commission expense	Gains less losses arising from financial instruments at fair value through profit and loss	"Gains less losses arising from financial instruments available from sale "	"Gains less losses arising from dealing in foreign currencies "	Other operating income	"General administrative expenses "	Depreciation and amortization	"Impairment losses on loans and receivables from customers and other assets "	Provisions for liabilities and expenses	'Profit before tax "	Deferred income tax (expense)/ income	Profit for the year	Total statutory reporting	Reconciliation between statutory and regulatory reporting
Interest income	564,056	560,236	3,820	-	-	-	-	-	-	-	-	-	-	-	-	-	564,056	-
Interest expense	(32,015)	-	(31,823)	-	-	-	-	-	-	-	-	-	-	-	-	-	(31,823)	192
Dividend income	2,549	-	-	-	-	-	-	-	2,549	-	-	-	-	-	-	-	2,549	-
Fee and commission income	522,382	-	-	522,382	-	-	-	-	-	-	-	-	-	-	-	-	522,382	-
Fee and commission expense	(315,408)	-	-	-	(315,408)	-	-	-	-	-	-	-	-	-	-	-	(315,408)	-
Gains of losses from recognition of financial assets and liabilities not measured at fair value through profit and loss account, net	3,047	-	-	-	-	-	2,118	-	929	-	-	-	-	-	-	-	3,047	-
Gains or losses from financial assets and liabilities held for trading, net	(8,012)	-	-	-	-	(66,133)	-	58,121	-	-	-	-	-	-	-	-	(8,012)	-
Gains or losses on non-trading financial assets measured at fair value through profit or loss, net	(48)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	48
Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gains or losses from hedge accounting, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange rate differences (gain or loss), net	(3,069)	-	-	-	-	(3,069)	-	-	-	-	-	-	-	-	-	-	(3,069)	-
Other operating income	20,243	-	-	-	-	-	-	-	7,499	-	-	512	-	-	-	-	8,011	(12,232)
Other operating expense	(12,074)	-	-	-	-	-	-	-	-	(12,010)	-	(64)	-	-	-	-	(12,074)	-
Administrative expense	(457,169)	-	-	-	-	-	-	-	-	(456,448)	-	-	-	-	-	-	(456,448)	721
Cash contributions to recovery committees and deposit insurance system	(24,764)	-	-	-	-	-	-	-	-	(24,764)	-	-	-	-	-	-	(24,764)	-
Depreciation	(70,057)	-	-	-	-	-	-	-	-	-	(70,057)	-	-	-	-	-	(70,057)	-
Gains or losses from changes, net	(3,574)	-	-	-	-	-	-	-	-	-	-	(3,574)	-	-	-	-	(3,574)	-
Provisions or reversal of provisions	(49,666)	-	-	-	-	-	-	-	-	-	-	-	(50,411)	-	-	-	(50,411)	(745)
Impairment or reversal of an impairment loss on a financial asset not measured at fair value through profit or loss	21,452	-	-	-	-	-	-	-	-	-	-	21,212	-	-	-	-	21,212	(240)
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairment or reversal of impairment of non-financial assets	557	-	-	-	-	-	-	-	-	-	-	12,980	-	-	-	-	12,980	12,423
PROFIT OR LOSS BEFORE TAX FROM CONTINUING BUSINESS (AOP 084 - 085 - 086 + 087 - 088 to 091+ 092 to 094)	158,430	-	-	-	-	-	-	-	-	-	-	-	-	158,430	-	-	158,430	-
Tax expense or income related to operating profit or loss from continuing business	(25,824)	-	-	-	-	-	-	-	-	-	-	-	-	-	(25,824)	-	(25,824)	-
PROFIT OR LOSS AFTER TAX FROM CONTINUING BUSINESS (AOP 095 - 096)	132,606	-	-	-	-	-	-	-	-	-	-	-	-	-	-	132,606	132,606	-
Profit or loss after tax from continuing operations (AOP 099 - 100)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Profit or loss before tax from non-continuing business	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Tax expenses or income related to non-continuing business	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PROFIT OR LOSS FOR THE CURRENT YEAR (AOP 097 + 098; 102 + 103)	**132,606**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**132,606**	**132,606**	**-**

Statement of Profit or Loss for 2022 reconciliation

1. The amount of HRK 3,820 thousand disclosed within Interest expense in regulatory financial reports is disclosed within Interest and similar income in statutory financial reports.
2. The amount of HRK 20,243 thousand within Other operating income, the amount of HRK 12,074 thousand within Other operating expenses in the amount of HRK 457,169 thousand within Administrative expenses and amount of HRK 49,666 thousand within Provisions or termination of provisions in regulatory financial reports are disclosed within Other operating income in the amount of HRK 10,976 thousand, General and administrative expenses in the amount of HRK 493,222 thousand, as well as within Provisions for liabilities and costs in the amount of HRK 50,411 thousand within statutory financial reports.

Differences in other items are purely semantic in nature and there is no mismatch between profit and loss accounts for 2022 in the regulatory financial reports and statutory financial reports.

Cash Flow Statement for 2022 reconciliation

OPERATING ACTIVITIES

	Regulatory Financial Reports	Principal Financial Reports	Difference
Operating Activities and Impairment			
1. Profit/ (Loss) Before Tax	158,430	158,430	-
2. Impairment Losses and Provisions	19,344	-	19,344
- Impairment losses from loans to customers and other assets	-	(31,067)	31,067
- losses from provisions for liabilities and expenses	-	50,411	(50,411)
3. Depreciation	70,057	70,057	-
4. Net Unrealized (Losses)/ Gains on Financial Assets and Liabilities at Fair Value	8,963	8,963	-
5. Gains/ (Losses) on Sale of Tangible Assets	(967)	-	(967)
6. Other Non-monetary Items	(592,736)	-	(592,736)
- (profit) / loss from exchange rate differences	-	(58,121)	58,121
- net interest income	-	(532,065)	532,065
- dividend income	-	(2,549)	2,549
Changes in Operating Assets and Liabilities			
7. CNB Deposits	1,326,442	-	1,326,442
Net (increase)/decrease in mandatory CNB reserve	-	1,326,442	(1,326,442)
8. Deposits with financial institutions and loans to financial institutions	(564,647)	-	(564,647)
Increase in placements and loans to other banks	-	(564,647)	564,647
9. Loans and Advances to Other Customers	(1,548,783)	-	(1,548,783)
Net (increase)/decrease in loans and receivables from customers	-	(1,548,783)	1,548,783
10. Securities and Other Financial Instruments at Fair Value through OCI	1,545,344	-	1,545,344
Net (increase)/decrease in loans and receivables through OCI	-	1,545,344	(1,545,344)
11. Securities and Other Financial Instruments Held for Trading	202,579	-	202,579
Net (increase)/decrease in financial assets at fair value through P&L	-	202,579	(202,579)
12. Securities and Other Financial Instruments Not Actively Trading and Measured at Fair Value through P&L	-	-	-
13. Securities and Other Financial Instruments Mandatory at Fair Value through P&L	-	-	-
14. Securities and Other Financial Instruments Measured at Amortized Cost	(2,529,332)	-	(2,529,332)
Net (increase)/decrease in financial assets measured at amortized Cost	-	(2,529,332)	2,529,332
15. Other Operating Assets	18,949	-	18,949
Net (increase)/decrease in other assets	-	18,949	(18,949)
Interest charged	-	453,457	(453,457)
Interest paid	-	(26,617)	26,617
Increase/ decrease in operating liabilities			
16. Deposits from Financial Institutions	186,851	-	186,851
17. Transaction Accounts of Other Customers	3,127,983	-	3,127,983
18. Saving Deposits of Other Customers	2,833,581	-	2,833,581
19. Term Deposits of Other Customers	(50,297)	-	(50,297)
Net (increase)/decrease in deposits from banks	-	186,851	(186,851)
Net increase/(decrease) in deposits from customers	-	5,910,533	(5,910,533)
20. Derivative Financial Liabilities and other trading liabilities	232	-	232
21. Other Liabilities	55,759	-	55,759
Net increase/(decrease) in other liabilities	-	55,759	(55,759)
22. Collected Interest from Operating Activities	453,457	-	453,457
23. Received Dividend from Operating Activities	-	-	-
24. Paid Interest from Operating Activities	(26,617)	-	(26,617)
25. Income Tax Paid	(42,340)	(42,340)	-
A) Net Cash Flows from Operating Activities	**4,652,252**	**4,652,252**	**-**

Cash Flow Statement for 2022 reconciliation (continued)

INVESTING ACTIVITIES

	Regulatory Financial Reports	Principal Financial Reports	Difference
Investing Activities			
1. Proceeds from Sale/ (Payments for Purchases) of Tangible and Intangible Assets	(73,801)	(73,801)	-
2. Proceeds from Sale of/ Payments for Investments in Subsidiaries, Associates and Joint Ventures	(91,344)	(91,344)	-
Sales in financial assets at fair value through other comprehensive income	-	-	-
Acquisition of financial assets at fair value through other comprehensive income	-	-	-
3. Proceeds from/ (Payments to Acquire) Securities and Other Financial Instruments from Investing Activities	-	-	-
Net sales/(acquisition) of financial investments at amortized cost	-	-	-
4. Dividends Received from Investing Activities	2,549	-	2,549
Dividend inflows	-	2,549	(2,549)
B) Net Cash Flows from Investing Activities	**(162,596)**	**(162,596)**	**-**

FINANCING ACTIVITIES

	Regulatory Financial Reports	Principal Financial Reports	Difference
Financing Activities			
1. Net Increase/ (Decrease) in Borrowings from Financing Activities	394,458	-	394,458
Increase in borrowings	-	1,045,946	(1,045,946)
Borrowings repayment	-	(651,488)	651,488
Lease repayment in accordance with IFRS 16	-	-	-
2. Net Increase/ (Decrease) in Issued Debt Securities	-	-	-
3. Net increase / (Decrease) of Additional Capital Instruments	-	-	-
4. Increase in Share Capital	-	-	-
Increase in share capital	-	-	-
5. Dividend Paid	-	-	-
Dividend outflows	-	-	-
6. Other inflows / outflows from Financing Activities	(18,321)	(18,321)	-
C) Net Cash Flows from Financing Activities	**376,137**	**376,137**	**-**

TOTAL

	Regulatory Financial Reports	Principal Financial Reports	Difference
Cash and Cash Equivalents at the Beginning of the Year	**6,501,311**	**6,501,311**	**-**
Effect of Changes in Foreign Exchange Rates on Cash and Cash Equivalents	**-**	**-**	**-**
Cash and Cash Equivalents at the End of the Year	**11,367,104**	**11,367,104**	**-**

Cash Flow Statement for 2022 reconciliation (continued)

1. The amount of HRK 19,344 thousand within Impairment and Provisions in regulatory financial reports is disclosed within Losses from impairment of loans and receivables from customers and other assets in the amount of HRK 31,067 thousand and within Provisions for liabilities and costs in the amount of HRK 50,411 thousand in statutory financial reports.
2. The amount of HRK 58,121 thousand within Other non-monetary items in regulatory financial reports is disclosed within (gains)/losses from FX differences in statutory financial reports
3. The amount of HRK 1,326,442 thousand within Accounts with CNB in regulatory financial reports is disclosed within Net (increase)/decrease in mandatory CNB reserve in statutory financial reports.
4. Item Profit/loss from the sale of tangible assets in HRK 967 thousand, Loans and advances to other customers in the amount of HRK 1,548,783 thousand, Securities and other financial instruments at fair value through other comprehensive income in the amount of HRK 1,545,344 thousand, Securities securities and other financial instruments held for trading in the amount of HRK 202,579 thousand, Securities and other financial instruments carried at amortized cost in the amount of HRK 2,529,332 thousand, Other assets from business activities in the amount of HRK 18,949 thousand, Deposits from financial institution in the amount of HRK 186,851 thousand, Transaction accounts of other clients in the amount of HRK 3,127,983 thousand, Savings deposits of other customers in the amount of HRK 2,833,581 thousand, Term deposits in the amount of HRK 50,297 thousand, Derived financial liabilities and other traded liabilities in the amount HRK 232 thousand, Other liabilities in the amount of HRK 55,759 thousand, Collected interest from business activities in in the amount of HRK 453,457 thousand, Interest paid from business activities in the amount of HRK 26,617 thousand, and Net increase in loans received from financial activities in the amount of HRK 394,458 thousand within the Prescribed reports, are shown in the items, Net increase in loans and advances to clients in the amount of HRK 1,548,703 thousand, Net reduction of financial assets at fair value through the profit and loss account in the amount of HRK 202,579 thousand, Net reduction of financial assets at fair value through other comprehensive income in the amount of HRK 1,545,344 thousand, Net increase of financial assets carried at amortized cost in in the amount of HRK 2,529,332 thousand, Net decrease in other assets in the amount of HRK 18,949 thousand, Net increase in bank deposits in the amount of HRK 186,851 thousand, Net increase in customer deposits in the amount of HRK 5,910,533 thousand, Net increase in other liabilities in the amount of HRK 55,759 thousand, and on the items Increase of taken loans in the amount of HRK 1,045,946 thousand and Repayment of taken loans dita in the amount of HRK 651,488 thousand in the statutory Financial statements.

Differences in other items are purely semantic in nature and there is no mismatch between cash flows statements for 2022 in the regulatory financial reports and statutory Financial statements.

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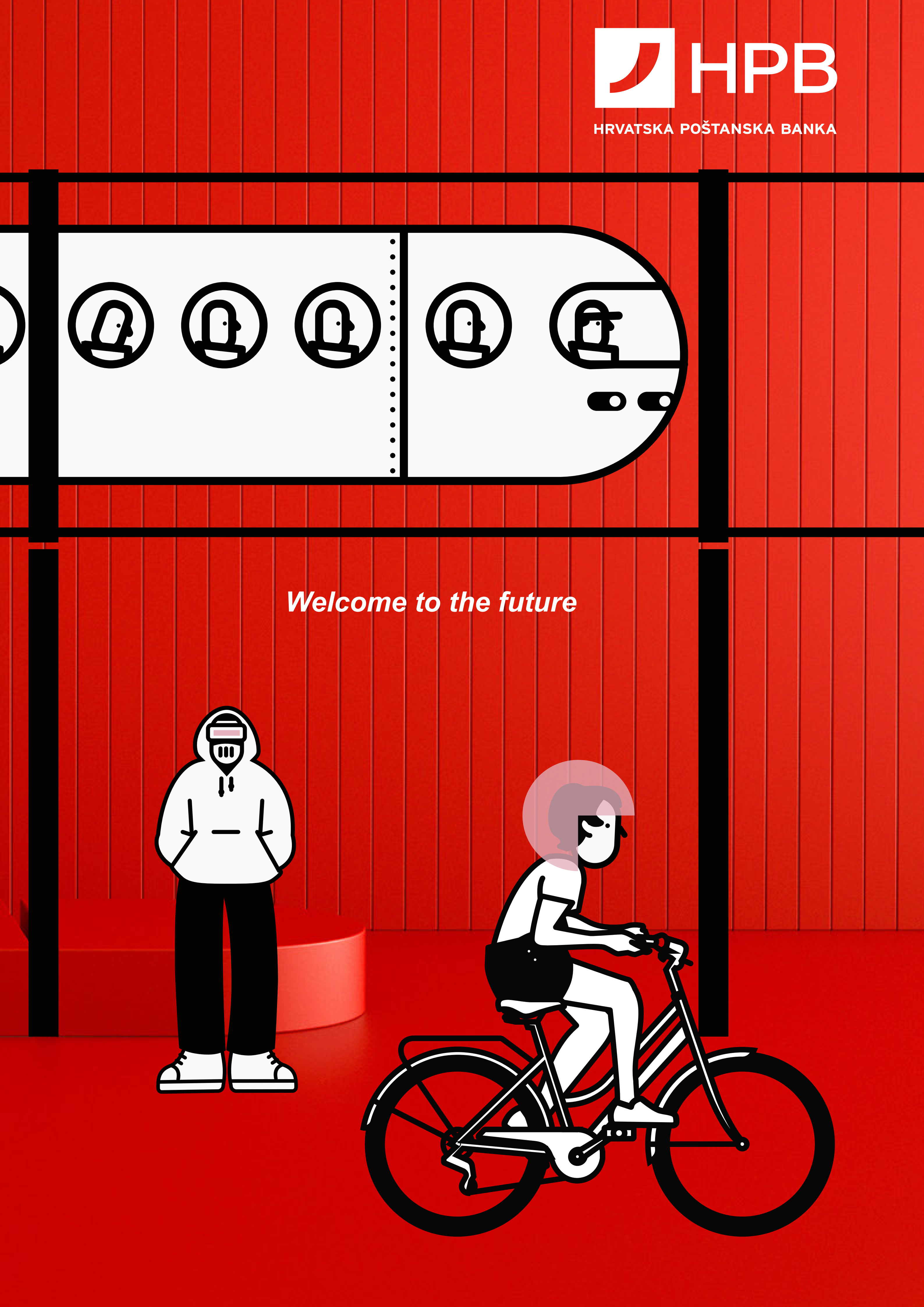
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