Annual Report for the year ended 31 December 2023

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Introduction

This Annual report, issued to the shareholders of the Erste&Steiermärkische Bank d.d., comprises the report of the President of the Management Board, Business results of Erste&Steiermärkische Bank d.d. and its subsidiaries, Non-financial Report, Corporate Governance Principles implementation statement, the audited financial statements together with an Independent auditor’s report and supplementary reports for the Croatian National Bank (CNB). The audited financial statements are presented for the Group and the Bank.

Croatian and English language version

This document comprises the Annual Report of Erste&Steiermärkische Bank d.d. for the year ended 31 December 2023 stated in English. This report is also published in Croatian language.

Legal status

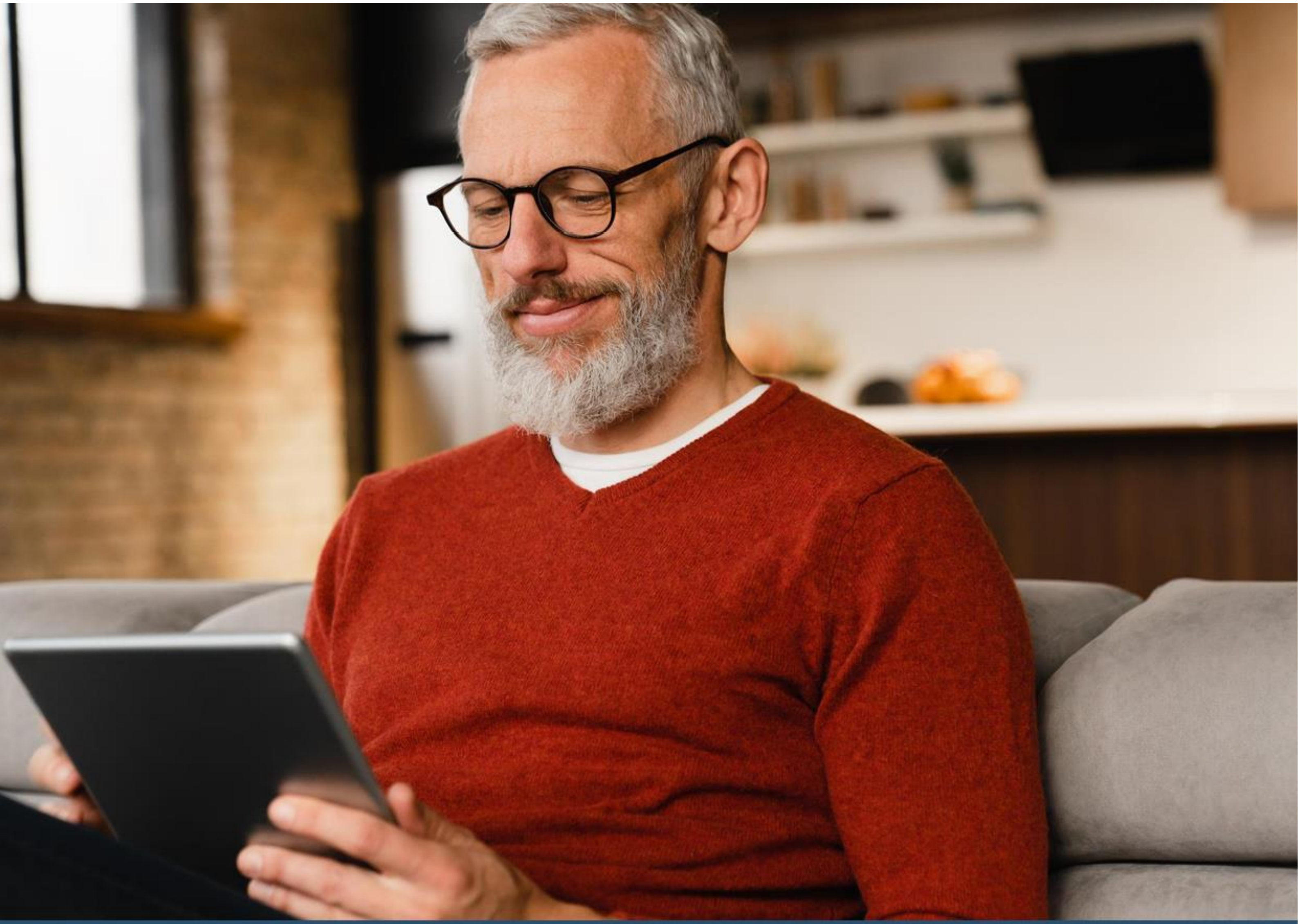
The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as published by International Accounting Standards Board (IASB) and adopted in EU.

Abbreviations

In this Annual report, Erste&Steiermärkische Bank d.d. is referred to as the Bank, Erste Bank or EBC and Erste&Steiermärkische Bank d.d. together with its subsidiaries and associates are referred to collectively as the Group or EBC Group.

In this Annual report, ultimate parent of the Group, Erste Group Bank AG is referred as Erste Group.

The Annual Report for the year ended 31 December 2022 has been published in both PDF and ESEF formats. Further, the PDF version is unofficial and the official format is publicly available in the European Single Electronic Format (ESEF).



Report of the President of the Management Board

Report of the President of the Management Board

The past year was primarily marked by Croatia's entry into the eurozone and the Schengen area. This was the fulfilment of two crucial strategic goals for the country, which will result in very positive multiplicative effects in the medium and long term, one of which can already be seen very clearly - lower interest rate increases than in the most EU countries.

The trend of rising interest rates

A major challenge in 2023 was the trend of rising interest rates in the eurozone by the European Central Bank ("ECB") in order to fight inflation. Due to the very competitive landscape in Croatia, along with the positive euro adoption effects and generally high level of banking system liquidity, the overall monetary transmission was rather moderate, especially compared to markets outside the eurozone. Such moderate interest rates increase positioned Croatia among those EU countries with relatively low cost of financing, placing Croatia high on the ranking list of countries with favorable lending conditions.

Credit activity remained overall solid - against the international trend - especially in the retail segment showing healthy lending growth in 2023, while corporate lending segment delivered lower growth compared to the record year 2022, while still remaining on a solid single digit growth path overall.

Finally, the high proportion of fixed interest rate products as well as lending products being linked to deposit rate changes and less to the swiftly changing EURIBOR, which we have offered to retail clients continuously during the past years, resulted in an overall lower interest rate sensitivity of the bank's lending portfolio, especially during the ECB rate hike cycle. At the same time, this also significantly reduced negative effects for the retail clients in the period of increasing interest rates.

Croatia is recording relatively favourable economic trends

According to current indicators, the eurozone is expected to avoid a recession in 2023, with a modest expected growth rate of around 0.5% and pronounced uncertainty regarding the 2024 outlook, i.e., continued modest growth of EU economies. On the other hand, it is heartening that Croatia is recording relatively favourable economic trends in such circumstances. In 2023, Croatia's real GDP growth will again be among the highest in EU, having been second highest back in 2022, right behind Malta's. Aside from the aforementioned adoption of the euro and entry into the Schengen area, the reason for this is primarily the structure of Croatia's economy, which is oriented towards the service sector and the SME segment, lacking large industrial clusters and being geographically close to main EU markets, which represents an advantage in the current international circumstances. We must also mention the significant influx of financing from EU funds for infrastructural and other projects for strengthening the economy, fiscal balance and stable and highly capitalised banking system that can keep pace with all quality business projects and citizens' needs. Due to its good macroeconomic and fiscal position, Croatia's credit rating was improved on several occasions, which is a very rare phenomenon in the current international environment.

We therefore remain optimistic when considering 2024 as well. The domestic component of growth remains supported by a strong labour market and the growth of citizens' real incomes, and on the investment side, we continue to witness the considerable potential of EU funds in the coming period. The export component of growth will predominantly reflect the aforementioned economic trends in the EU, which we currently see as the main unknown factor, i.e., the main risk in 2024. Following the normalization after the pandemic, we still see tourism as an important factor of growth, but likely to a smaller degree. In short, we expect a growth rate of around 2.5% in 2023 and similar growth dynamics in 2024 as well, where the current economic momentum even suggests the possibility of somewhat stronger economic growth this year.

The importance of the dynamic pace of structural reforms

Despite the fact that this is an election year, structural reforms should not stall or slow down, instead, it is necessary to further stimulate their dynamic pace. Despite everything, Croatia still occupies only an average place on rankings of competitiveness, such as the Doing Business ranking, and there is certainly room for improvement in that regard. This will become especially important as financing from European funds will gradually slow down towards the end of the decade. This is, of course, a long-term process, which must not be postponed any longer. Additionally, we must not forget the need to further strengthen legal security for domestic and foreign investors.

Stable and growing business operations of the bank

According to an unconsolidated financial report, which includes the results of the Bank excluding subsidiaries, the net profit in 2023 amounted to EUR 219 million, compared to EUR 130 million in 2022. Higher net profit was the result of the improved operating result which primarily stemmed from increased interest income as a consequence of the monetary policy-maker's actions and the growth of the market interest rates, as well as the total loans volume increase. As a result, net interest income increased from EUR 232 million in 2022 to EUR 353 million in in 2023, while net fee and commission income increased from EUR 79 million in 2022 to EUR 87 million in 2023. Net trading and fair value result expectedly declined with the introduction of the euro, amounting to EUR 14 million in 2023, compared to EUR 41 million in 2022.

The Bank's total assets at the end of December 2023 amounted to EUR 13.3 billion, down by 2.7% compared to the end of 2022 when they amounted to EUR 13.6 billion. Loans to customers as of 31 December 2023 amounted to EUR 7.8 billion, up 9.2% compared to the EUR 7.1 billion at the end of 2022. Deposits of the Bank's customers as of 31 December 2023 amounted to EUR 10.8 billion, up 1% compared to the end of 2022 when they amounted to EUR 10.7 billion. The decrease in deposits in the first half of 2023, that was primarily the result of the expected and anticipated partial shifting of deposits into alternative forms of investing, predominantly into the so-called national bonds and the Bank's bond issue as well as, partially, into the so-called fixed maturity investement funds, was fully compensated by the growth in the second half of the previous year.

EBC Group's net profit before minority interests amounted to EUR 241 million in 2023, compared to EUR 156 million in 2022. ECB Group's net interest income amounted to EUR 410 million, compared to EUR 282 million in 2022. Net fee and commission income amounted to EUR 125 million, compared to EUR 117 million in 2022. Net trading and fair value result amounted to EUR 15 million in 2023, compared to EUR 40 million in 2022.

EBC Group's total assets at the end of December 2023 amounted to EUR 14.8 billion, down 1.5% compared to the end of 2022 when they amounted to EUR 15.0 billion. Loans to customers as of 31 December 2023 amounted to EUR 8.5 billion, 9.1% more compared to the end of 2022 when they amounted to EUR 7.7 billion. Deposits of EBC Group's customers as of 31 December 2023 amounted to EUR 11.4 billion, 1.8% more compared to the end of 2022 when they amounted to EUR 11.2 billion.

The focus is on efficiency, innovation and striving for excellence

By issuing the preferred senior bonds in June last year, amounting to a total of EUR 90.1 million, we reaffirmed our position as the most active issuer of bonds among financial institutions in Croatia. Aside from issuing our own bonds, we also participated, as one of the leading agents, in the issuing of the bonds of the Republic of Croatia (so-called national bonds) on the domestic capital market in February and March last year. In addition, in late June and early July 2023, the bank participated in the successful issuing of ZG Holding bonds, amounting to EUR 305 million, as one of the agents, thus continuing to provide additional stimulus to the development of the domestic capital market as a whole.

In general, Erste Bank's position on the Croatian market is solid and stable. We hold a leading position in many business segments, have the highest rating from credit rating agencies (A-, Fitch Ratings, 2023) among banks and other companies on the domestic market, and we have also won our ninth Golden Kuna award for the most successful Croatian bank. A strong and stable capital position, high level of liquidity, high degree of client trust, and the fact that we belong to a strong parent group that sees Central and Eastern European region as its core market, puts the focus of our business operations on efficiency, innovation and striving for excellence, through which we want to contribute to the growth and development of the Croatian economy, encouraging and promoting the prosperity of all of our employees, clients and Croatian society as a whole.

Christoph Schoefboeck,
President of the Management Board

Management Board

CHRISTOPH SCHOEFBOECK, President of the Board
Responsibilities: Human Resources Division, Marketing Division, Corporate Communication Office, Strategy and Project Management Division, Internal Audit Division, Management Board Office, SME Division, Large Corporates Division, Corporates and Markets Business Development and Support Division, Financial Markets Division

MARTIN HORNIG, Member of the Board
Responsibilities: Processing Division, IT and Organization Division, Property and Service Management Department. As of May 1, 2023, responsibe also for Corporate Security Division.

ZDENKO MATAK, Member of the Board
Responsibilities: Retail Division, Retail Business Development Division, Direct Channels Division, Digital Banking Division

KREŠIMIR BARIĆ, Member of the Board
Responsibilities: Accounting and Controlling Division, Asset and Liability Management Division, Economic Research Division, Group Tax Office, Data Governance Office

HANNES FROTZBACHER, Member of the Board
Responsibilities: Risk Management Division, Credit Risk Management Division, Non-financial Risk Division, Legal Division and until April 30, 2023 Corporate Security Division.

Business results of Erste&Steiermärkische Bank d.d. and its subsidiaries in 2023

Business results of Erste&Steiermärkische Bank d.d. and its subsidiaries in 2023

I. Retail segment

Retail loans and deposits

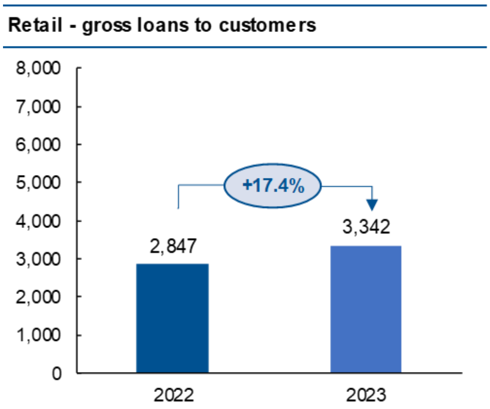


Chart 1: Retail loans in EUR million

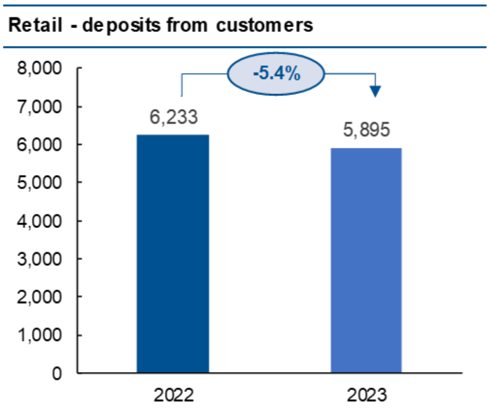


Chart 2: Deposits from customers in EUR million

Total portfolio of the Bank's gross retail loans amounted to EUR 3.34 billion on 31 December 2023, which is increase of EUR 0.49 billion compared to previous year. The market share in retail loans, per Croatian National Bank, amounted to 15.16% as of 31 December 2023 which is increase of 100 basis points compared to 31 December 2022. During 2023 long-term trend of decreasing interest rates on loans has changed and we had an increase of interest rates for cash and housing loans of citizens.

Bank's retail deposit portfolio declined in 2023 primarily under the influence of competitive investment products offer on the market (government bonds and treasury notes for citizens, etc.). Retail deposits amounted to EUR 5.89 billion as of 31 December 2023, which represents decrease of EUR 0.34 billion compared to previous year. During 2023, because of changed market conditions, interest rates for term deposits increased while interest rates for sight deposits remained unchanged at minimum levels. Retail deposits reached market share of 15.00% as of 31 December 2023, which represents decrease of 108 basis points in comparison to 31 December 2022.

Focus on clients in 2023

Service quality and client satisfaction, as the main strategic determinants of Erste Bank's business operations, have marked business operations in the past year, which is recognized by clients and contributed to growth of private individual's client base to over 935,000 clients.

The biggest focus in 2023 was adapting to new market conditions and growth of interest rates on loans and deposits after a long-term trend of decreasing interest rates. Also, after the successful adjustment of entire business activities and the introduction of euro as official currency in the Republic of Croatia from 1 January 2023, Erste Bank continued with the activities of further development of products and services with focus on digitalization and automation of business activities.

Changes in client behaviour and habits, development of new technologies and regulatory framework are continually demanding a change in the existing business model and role of individual distribution and communication channels, where branches are increasingly becoming centres of advisory and solving more complex client requirements, while clients are increasingly using digital services and self-service devices to perform transactions and solve simpler requests. Thus, activities of branch transformation continued throughout the year, which, in addition to a new visual identity, are also characterized by a new way of working focused on the employee advisory role and a unique customer experience. Total number of branches amounted to 112 at the end of 2023, and total number of self-service devices amounted to 676.

I. Retail segment (continued)

During 2023 activities to improve the offer of housing and cash loans continued and a large national campaign for the promotion of housing loans was organized in the first quarter, and in the tird and fourth quarter of 2023 for the promotion of cash loans with emphasis on digital submission of applications. A Housing Center was opened in Zagreb with the aim of increasing the recognition of the Bank in the housing lending segment and is currently the only such center on the market. In the Housing Center there are specialists who are exclusively engaged in providing advice and proposing financial solutions related to housing lending. Also, Erste Bank actively took part in the tranche of APN financing program for the purchase of real estate or construction of houses, for which Government of the Republic of Croatia approved subsidies up to half of the installment or annuity. All the mentioned activities had an impact on the growth of housing loans market share to 13.26% on 31 October 2023, which is increase of 66 basis points compared to 31 December 2022.

From 30 June 2023 permitted overdrafts were reintroduced into the product offering and in accordance with the Memorandum of Understanding offers were sent to clients who had approved silent overdrafts to switch to permitted overdrafts. It is enabled to contract new permitted overdrafts, as well as to switch from silent to permitted overdrafts, through the online banking platform George. Also, special purpose accounts for the renovation of earthquake-damaged properties were introduced in collaboration with the Ministry of Physical Planning, Construction and State Assets.

During 2023, with the aim of improving personalized approach to clients in fulfilling their financial needs, were realized CRM campaigns and product offers which are based on recognition of relevant situations for the client. Also, in preparation is modern application for supporting the advisory process related to financial health of the client.

Erste Bank places a significant focus on environmentally responsible business practices and for several years has been offering more favorable conditions for housing loans related to purchase and construction of real estate with high energy efficiency, purchase and installation of equipment for use of renewable energy sources (e.g., solar panels) and purchase and installation of equipment to maintain and improve energy efficiency (e.g., thermal insulation). This year were introduced loans for eco-friendly vehicles allowing clients to finance energy-efficient vehicles with electric or plug-in hybrid engines or hydrogen fuel cells. Clients were also provided with a calculator to estimate financial savings and environmental impact after implementing energy efficiency measures, which is available on the Bank's website. Also, cooperations were established with partners who enable clients to improve energy efficiency of their households and such partnerships will continue to be improved and expanded in the future. Clients who improve energy efficiency get more favorable loan conditions as well as discounts from partners.

Innovations in Retail segment

With the long-term goal of ensuring financial prosperity for clients and providing new and improved services, the intensive development and advancement of the George digital platform has continued.

At the beginning of the year migration to Euro currency was successfully completed also on George. In addition, at the beginning of the year, a digital process for one-time purchase of Croatian national bonds through George was developed and 3,350 (42%) clients signed for bonds via George in the total amount of EUR 88 million (31%). Digital contracting of overdrafts was developed and in cooperation with Vienna Insurance Group (VIG) an overview of the life insurance policy was enabled and a fully digital process for contracting PPI - Payment protection insurance policy and MedicusM additional health insurance was developed. Also digital contracting of 5 new basket investment funds was implemented and completed linking with Treasury to enable visibility of investment portfolio for users on George, to create conditions for digital trading of shares with aim of increasing sale of investment products and improving financial health of our users.

At the end of the year, Dateio moneyback (the first prize program on George) was released on production and saving goals opening option were launched for purpose of encouraging savings and expanding range of savings products on George. Thus, the range of fully digital products on George application has been further expanded in addition to the previously available products such as current accounts, cash loans, term deposits, credit cards and partner products such as travel and health insurance and investment funds.

I. Retail segment (continued)

All this resulted in an increase in the user satisfaction index from 89.5 in 2022 to 92.6 in 2023 and rise in average ratings for Geroge in app stores to 4.8.

Trend of strong growth for KEKS Pay application continued in its sixth year of presence on the market. A record of 93,000 new users in 2023, predominantly clients of other banks, brought the total number of users to 411,000. 71% of users are clients of other banks, while 29% of them are clients of Erste bank. Fully digital opening of a prepaid KEKS Pay electronic money account with the corresponding Visa card continued with stable trend. Number of new prepaid accounts exceeded 40,000 which was contributed to by the functionality introduced at the end of 2022 - KEKS Kasica (i.e., savings) of which 30,000 were opened in 2023. This functionality was upgraded with option of creating savings goals in 2023.

Innovative service KEKS Pay utility bills, in which during 2021 it was enabled receiving digital utility bills and paying them without fees throughout Croatia, has further expanded its scope and now offers more than 85 different issuers of which we would single out ZG Holding, Vodoopskrba i odvodnja, Zagrebačka plinara, Allianz osiguranje, Telemach, etc. At the end of the year, with more than 47,500 approved requests for digital utility bills, around 223,600 invoices were paid, with a clear trend of growth from month to month.

Increased acquisition activities towards legal entities in the past period also brought results, so KEKS Pay, with its presence in more than 370 integrated online stores, has become one of the most important payment methods in the field of electronic commerce in Croatia. Activities in other areas, such as retail (implementation of KEKS Pay payment at more than 700 sales locations of Konzum, Spar and Interspar), HoReCa channel, ticket purchase (Eventim, Entrio, Ulaznice.hr), public transport (Jadrolinija, Croatia airlines) and similar, will certainly contribute to the continuation of the positive trend. In 2023, revenue from merchants, digital utility bills and payment of payment slips grew by over 100% compared to 2022.

Digital banking in 2023

During 2023 Erste Bank recorded an increase in number of digital channel users, as well as in number of digital transactions and revenues related to transactions. At the end of 2023 Bank counts 409,810 active digital users of George application, which represents increase of 13% compared to 2022. In total number of active digital users 98% are mobile users.

Increase was also recorded in digital transactions, and they have grown by 10% in number and 24% in volume. During 2023 focus was on increasing sales via digital channels. Share of digital sales in 2023 is 41.8% which represents significant increase compared to 26.5% in 2022.

Retail - active digital users

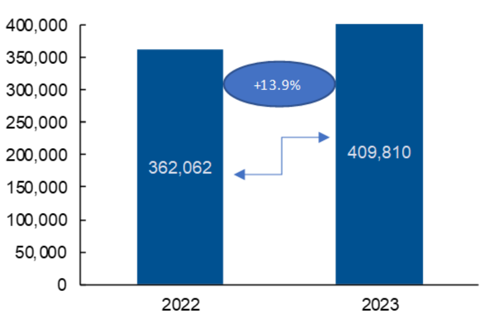


Chart 3: Retail - active digital users

Retail - digital sales

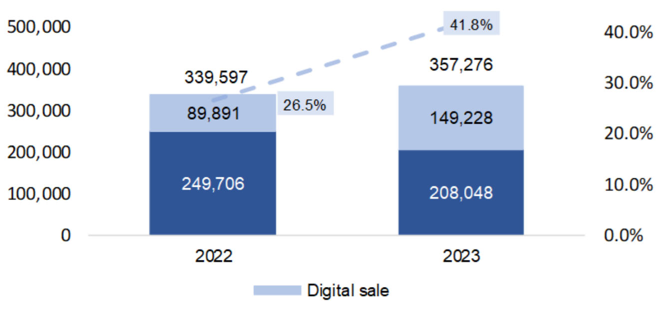


Chart 4: Retail - digital sales

I. Retail segment (continued)

Contact center

Contact centre has an important role in communication with clients, and this role is becoming greater with the development of new communication channels and digitalization of business activities. In 2023 clients contacted the Bank for 787,784 times through the Contact Centre, what is 7% more than in 2022. 61% of the contacts were resolved by agents over the telephone (inbound and outbound contacts), while the rest regards to communication by email, webchat and Gorge chat, Viber, What'sApp, Facebook and video identification. Increase compared to 2022 refers to email channel (9%) and video identification (117%). Implementation of the chatbot project (partially automated communication with clients on the webchat channel) at the end of 2022 has influenced the increase in quality of service to clients in 2023 on mentioned channel.

Sales campaigns in 2023 covered 92,523 customers, which is about the same number of customers as in previous year. Clients were reached through outbound calls and the sales campaigns included offers of current accounts, digital services, pre-approved loans, cards, and activities aimed at digitizing the client's business with the Bank.

Regarding remote advisory service, in 2023 a total of 705 specialized investment advisory video meetings were held (30% more than in previous year) and realized 9,300 contacts with clients related to other bank products through various communication channels. Through all those meetings and contacts, over 7,200 products of the Bank and Group were realized. Remote advisory service recorded significant growth in number of meetings and realizations for the second year in a row, with particular emphasis on investment products (volume of realized investment products is 150% higher compared to 2022) and loans (number of realized loans is 160% higher compared to 2022).

In 2023, preconditions for improving Contact centre business processes and introduction of new services have been ensured: establishment of Digital Branch and centralization of complaints resolution process. Digital branch, as a new remote advisory concept, will be focused on clients who prefer remote or digital channels for communication (phone, mail, chat, request for a call or meeting over the web, etc.) with maximally supported digital process from advisory to product realization. High satisfaction level of clients will be ensured through availability of services regardless the working hours of the branch and the provision of adequate information and services according to client needs. Regarding complaints resolution, almost 80% of total Bank’s complaints are received through contact centre, most often by phone and mail channel. Considering the before mentioned fact, and regulations and legal obligations in the field of complaints, the allocation of dedicated employees specialized in resolving complaints will ensure additional growth of service quality and efficiency.

II. Corporate segment

Corporate loans and deposits

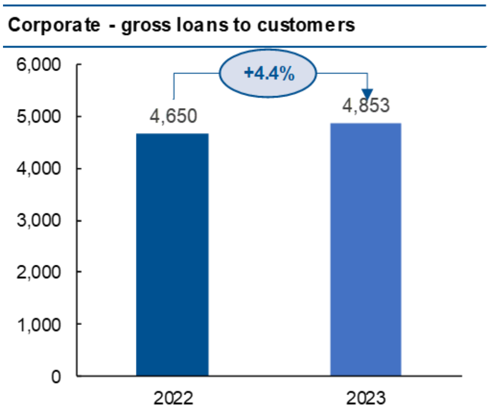


Chart 5: Corporate loans in EUR million

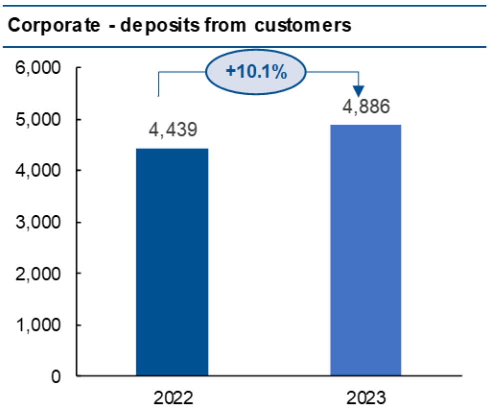


Chart 6: Corporate deposits in EUR million

Total portfolio of the Bank's gross corporate loans recorded growth in 2023 and amounted to EUR 4.85 billion as of 31 December 2023, which is increase of EUR 0.20 billion compared to previous year. The market share in corporate loans, per Croatian National Bank, amounted to 22.18% as of 31 December 2023 which resulted with growth of 49 basis points compared to 31 December 2022.

The corporate deposit on 31 December 2023 amounted to EUR 4.89 billion, which represents increase of EUR 0.45 billion compared to previous year. Corporate deposits reached market share in the amount of 20.04% as of 31 December 2023, which represents decrease of 39 basis points in comparison to previous year.

Focus on corporate clients in 2023

With the long-term goal of providing new and improved services, continuous support for the long-term sustainable business of clients as well as ensuring their financial prosperity, business in 2023 was marked by initiatives related to optimization and digitalization of processes and further product development. Also, the offer of financial instruments that support investment in accordance with ESG (environmental, social and governance) guidelines and generally more socially responsible business through various forms of support has continued.

Two key concepts implemented last year, the Financial Health Zone and the implementation of the ESG operational model, continued their development throughout this year. The Financial Health Zone is a concept that provides support to clients in achieving a healthier financial balance by providing them with access to transparent and understandable information about their current financial situation, while the ESG operating model is focused on business sustainability.

In 2023, an updated version of the Financial Health Zone tool was published with improved functionalities that provide clients with a better insight into the indicators of the financial success of their business, i.e., financial health. In the part of the dialogue with clients about financial health, the new version of the tool provides the Bank's sales staff with the possibility of a more precise analysis of key parameters and a focus in communication on the basic assumptions of further sustainable and successful client business. The successful synergy of tools and dialogue about financial health resulted in the continuation of the trend of high positive ratings of client satisfaction.

Recognizing the increasing importance of environmental, social and governance risks as one of the key topics, clients' awareness of ESG issues was raised during the year through various activities. Lectures and panel discussions for clients were held in the last quarter of 2023 on general ESG topics and the current and future impact of ESG transformation on the business of small and medium-sized enterprises, contemporary trends in this area and regulatory obligations. As an example of an operational ESG model, web energy efficiency calculators intended for all legal and natural persons were implemented prepared, which were developed in cooperation with the Hrvoje Požar Energy Institute.

II. Corporate segment (continued)

The goal of the calculator is to provide an informative calculation of potential financial savings and environmental impact after applying energy efficiency measures (the calculator provides an informative calculation on energy savings, cost reduction, contribution to environmental protection through CO2 reduction, as well as information on when clients can expect a return on investment).

In the course of the year, the activities of establishing bilateral cooperation at the level of Erste and Sparkasse Group continued. Bilateral cooperation enables business entities to open and make changes to transaction accounts and digital services, as well as client identification in Group members. The above proved to be extremely important because it enables clients who are located outside of Croatia to open accounts remotely. In addition to already established bilateral cooperation with members of the Group in the countries: Austria, Czech Republic, Slovakia, Romania, Slovenia, and Hungary, during 2023 cooperation was also signed with Group member Sparkasse from Graz.

Initiatives and projects

After the Financial Health tool was implemented in 2022 (an innovative digital tool on the Croatian banking market that enables clients to see their credit rating in the bank and key financial indicators) its further development continued in 2023, primarily through the improvement of the credit calculation methodology rating. The improved version is available to all small and medium-sized clients via NetBanking and mBanking and, in addition to insight into their own credit rating, it also enables clients to compare their rating with other Bank clients from the same industry, historical rating trends and basic clarification of indicators for rating calculation. As a result, the trend of high positive ratings of user experience and client satisfaction continued (both for the model of meetings on financial health and the use of a tool). Partly because of the new concept of internal education for relationship managers, with the aim of further raising the quality of the meetings on financial health. In addition to the local market, Erste Bank is also actively participating in the preparation of the development of the Financial Health model in other regional banks of the Erste and Sparkasse Group.

In 2023 intensive cooperation on guaranteed instruments continued with special financial institutions: European Investment Fund (EIF), Croatian Reconstruction and Development Bank (HBOR) and Croatian Agency for SMEs, Innovation and Investments (HAMAG-BICRO).

At the beginning of 2023, the active use of EIF guarantee instruments began within the InvestEU Program based on the agreement signed between Erste Bank and the EIF as the first in Croatia and one of the first in the entire European Union, with a maximum guaranteed volume of EUR 50 million. Five guarantee instruments are available enabling our clients to implement green and sustainable investments, projects with innovative and digital components and projects in the cultural and creative sectors. In addition, the Bank puts special focus on microfinancing and social entrepreneurship through separate guaranteed instruments within the InvestEU Program.

The Bank continued its cooperation with HAMAG-BICRO and HBOR significantly utilising the existing financial instruments which had been open until the end of 2023. Significant support to the exporters afflicted by the Ukrainian crises and in need of liquidity for their activities was provided by the HBOR portfolio insurance policy, so that the total contracted loan volume of EUR 90 million was utilised almost to the fullest. HBOR's „ESIF Loans for Growth and Development“Programme provided investment loans with low interest rates, and HAMAG ESIF individual and portfolio guarantees continued to be actively utilised. Interest rate subsidy programmes were implemented in the framework of the National Recovery and Resilience Plan (NRRP) in combination with HBOR loan programmes and HAMAG-BICRO ESIF individual guarantees. These programmes have significantly decreased costs of financing for clients with sustainable projects and have represented the first financial instruments defined in Croatia based on the „Do No Significant Harm“principle.

In line with its strategic guidelines, by utilising the above instruments the Bank has provided continued support to individual entrepreneurial sectors, with a special emphasis on those sectors which contribute to green, innovation and digital goals. The emphasis in the last year was also on the financial instruments which included aid allocation.

During 2023 the Bank has been approving loans for projects cofinanced by EU grants and has been issuing binding and unbinding letters of comfort for financing such projects.

II. Corporate segment (continued)

Digital banking in 2023

The number of business entities using NetBanking services in 2023 increased by 6.1% compared to the previous year. The number of business entities using mBanking services increased by 19.9%. Transactions grew by 9% in both number and volume.

Improving the offer of credit products through mBanking and NetBanking applications, along with the introduction of digital signatures in contracting, positioned our applications for business clients beyond the scope of basic payment functionalities. Clients (mostly SMEs and craftsmen) have responded with interest and positivity to the introduced innovations.

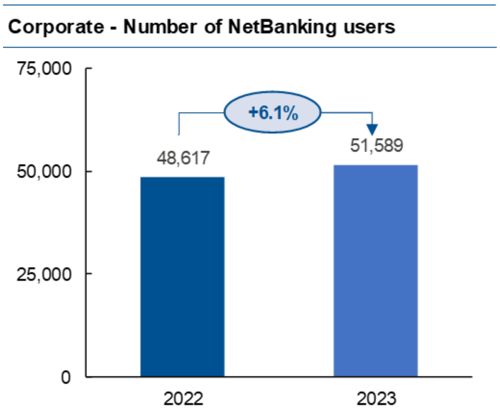


Chart 7: Number of NetBanking users - Corporate segment

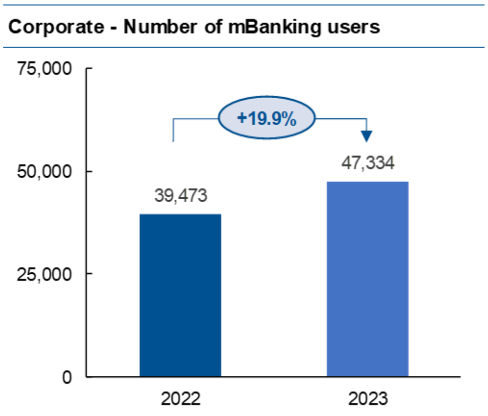


Chart 8: Number of mBanking users - Corporate segment

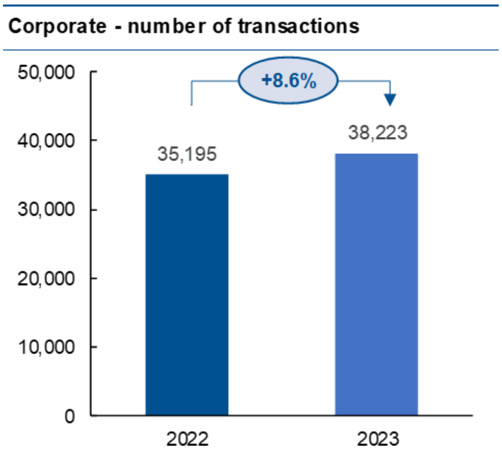


Chart 9: Number of transactions in thousands - Corporate segment

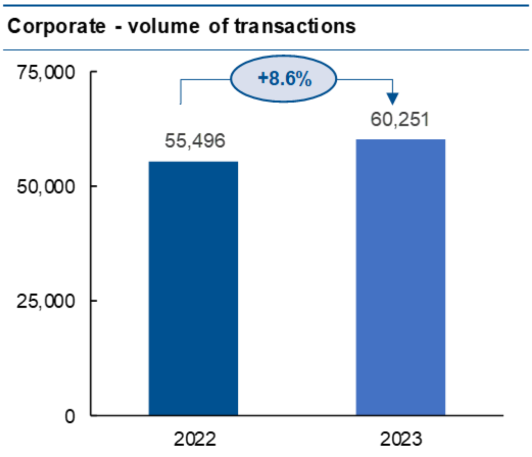


Chart 10: Volume of transactions in EUR milion - Corporate segment

III. Macroeconomic indicators

In the aftermath of deep recession in 2020 (-8.6%), economy posted impressive recovery throughout 2021 (13.8%), resulting in full V-shape recovery and followed by another strong performance in 2022 (6.3%). Going into 2023, YTD growth figure amounted to 2.3% y/y, revealing gradual acceleration trend throughout the quarters (1Q at 1.6% y/y; 2Q at 2.6% y/y; 3Q at 2.8% y/y). Detailed structure revealed such developments were largely supported by the strengthening domestic demand footprint, on both private consumption and investments side. On the other hand, exports showed deteriorated performance amid declining goods, but also revealing less support from the tourism in the high season. However, net exports contribution remained overall positive amid declining imports. Looking ahead, domestic demand should keep supportive role, while external demand outlook continues to face headwinds from weak EU growth trajectory. Prolonged weakness may also to some extent hamper the tourism demand and weigh on the expected modest tourism growth, following the strong post-pandemic rebound. Bottom line, GDP growth in 2023 is seen landing around 2.5% and remaining close to 2.5% region in 2024, with external demand evolution remaining the key uncertainty.

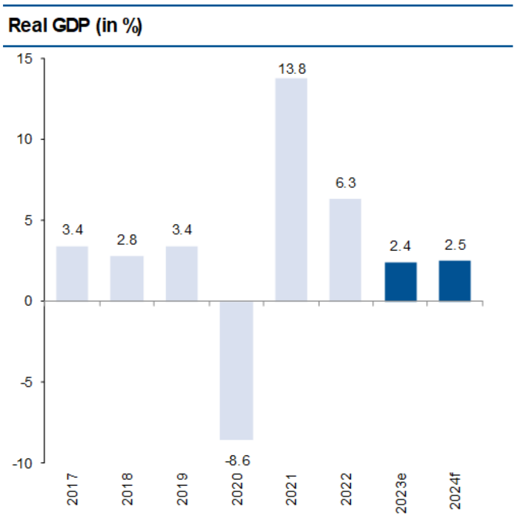


Chart 11: Real GDP (in %) 2017 - 2024

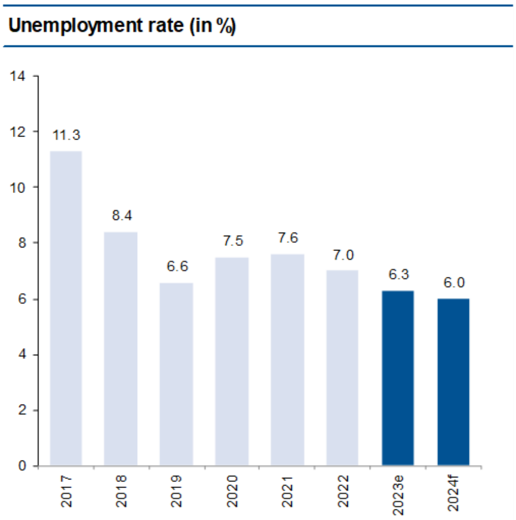


Chart 12: Unemployment rate in Croatia 2017 - 2024 per ILO definition

Current account, after maintaining positive developments in recent years, moved into neutral zone during pandemic period, mostly reflecting depleted tourism-related revenues. As economy recovered, especially tourism, CA position improved and reverted into solid green in 2021 – however, rising pressures on the imports side, coupled with deflator developments, pushed the balance back into negative area, with current account deficit amounting to 2.8% of GDP in 2022. Going into 2023, CA balance revealed better performance as imports pressures subside and deficit narrowed to modest 0.1% of GDP in 3Q23 – we expect to see overall mild positive performance during 2023-2024 period and Croatia running relatively balanced external position.

While the beginning of the 2023 still saw stronger upside pressures, inflation gradually started its decelerating trend, with the headline figure reversing to the single-digit region from 2Q23. While mid-year brought more sticky inflation pressures, post-summer months brought price trends closer to anticipated downward trajectory. Detailed structure suggests that initial easing of inflation is predominantly due to deflating energy pressures and more recently fading pressures on food items. Supply-chain normalization is also reflected in diminishing pressures to non-energy/food goods. Supply side outlook is looking more comfortable (yet remains sensitive to global factors), while demand side amid strong labor market and wage dynamics is likely to continue to put some pressures. Average FY23 performance landed at 8% mark (preliminary figures), while going forward, we see inflation footprint toning down towards 3.5% average in 2024, owing to a more supportive supply-side outlook.

After one-off pandemic deviation from the fiscal consolidation course, Croatia returned within the Maastricht boundaries already in 2021 (deficit at -2.5% of GDP), followed by budget surplus in 2022 (0.1% of GDP). Fiscal performance is set to remain favorable also in 2023 as owing to economic/inflation tailwinds, Croatia is expected to be running almost balanced budget position.

III. Macroeconomic indicators (continued)

As expected, budget draft for 2024 is envisaging some election-cycle driven loosening targeting budget gap closer to 2% of GDP, yet adequate to aim for public debt around 60% of GDP in 2024. On the rating side situation remains favorable, where all three agencies, after the round of euro-adoption driven rating upgrades, (first S&P, followed by Fitch and Moody's) moved to change the outlook to positive in 2023. Strong economic momentum, solid budget performance, fiscal prudence and declining public debt were underlined as key driving factors behind such a decision and suggesting increasing likelihood of more positive rating news in 2024.

	2018	2019	2020	2021	2022	2023 (e)	2024 (f)
Nominal GDP (EUR, bn)	52.1	54.9	50.6	58.4	68.0	75.8	80.3
Real GDP (growth y/y, %)	2.8	3.4	-8.6	13.8	6.3	2.4	2.5
CPI (y/y, average %)	1.5	0.8	0.1	2.6	10.8	8.0	3.5
Current account balance (% of GDP)	1.6	2.5	-1.0	1.0	-2.8	1.0	0.4
Foreign debt to GDP (% of GDP)	82.2	73.9	81.6	80.8	72.9	73.9	71.9
Unemployment (%, ILO definition)	8.4	6.6	7.5	7.6	7.0	6.3	6.0
Budget balance (% of GDP)	-0.1	0.2	-7.3	-2.5	0.1	-0.5	-2.0
Public debt (% of GDP)	73.1	70.9	86.8	78.1	68.2	61.4	59.7

[e] estimate
[f] forecast
Source: CBS, CNB, Erste&Steiermärkische Bank d.d.

IV. Financial markets

Money market

The year 2023 was marked by the continuation of the fight against inflationary pressures on the global market. Central banks continued to raise interest rates to stem price growth. Reference interest rates reached their peak at the end of the year (EUR 4%, USD 5.25% - 5.5%, GBP 5.25%), and gradual cutting of interest rates by the leading central banks is expected in 2024. European Central Bank (ECB) decided to normalize its balance sheet. The portfolio of the asset purchase program (APP) is being reduced at a moderate and predictable pace, while in the first half of 2024 it will continue to fully reinvest the principals of maturing securities purchased as part of the Pandemic emergency purchase programme (PEPP). In the second half of the year, the ECB intends to reduce the PEPP portfolio by an average of EUR 7.5 billion per month and to suspend reinvestment within the PEPP at the end of 2024. Excess liquidity in the Eurosystem at the end of 2023 amounted to EUR 3.5 billion, which is a reduction by EUR 1 billion compared to the end of 2022.

With the entry into the Eurozone, the yields on treasury bills of the Ministry of Finance of the Republic of Croatia formed new levels. The yield on the 91-day euro t-bill is 2%, on the 182-day t-bill 3.2%, and on the 364-day t-bill 3.75%. The 364-day t-bill was offered to individual investors for the first time. The response was great, and they were allocated EUR 1 billion. As a result, interest rates on term savings in commercial banks have also increased, where the growing interest of clients is visible.

FX market

During 2023, all eyes were on key interest rate movement expectations. The investors were focused mostly on inflation and economic growth data. The exchange rate between the euro and the dollar last year ranged from 1.0450 to 1.1275. At the beginning of the year, one euro was worth 1.07 US dollars, and during July the euro strengthened to 1.1275. At the end of the year, the euro traded around the 1.10 level against the US dollar.

The Swiss franc has been one of the best-performing currencies in 2023 as investors embraced its role as a safe haven. Compared to the Swiss franc, the euro started the year around parity, i.e., one euro was worth 1 franc, and in the following twelve months the euro continued to weaken and reached the end of the year at around 0.93, which represents the lowest exchange rate in the last 9 years.

Capital market

2023 was relatively active year in terms of Government financing through bonds on the domestic market and were realized two Republic of Croatia bond transactions in the total nominal amount of EUR 3.1 billion. In March, a new 2-year bond of EUR 1.85 billion was issued, with the fixed annual interest rate of 3.65%, while subscription was primarily offered to retail and then to institutional investors. It represents a very important transaction for domestic capital market, considering that the retail investors proved to be a significant category of investors and was allocated 72% of total issue amount to them (in which more than 45,600 retail investors participated), representing the largest amount of subscription by retail investors in a single public offer of securities in Republic of Croatia. Subscription for retail investors was offered through bank branches of Joint Lead Managers („JLM“) and Co-Lead arranger, while the Bank as one of the JLMs additionally offered the subscription of the bonds through the Internet banking platform – George. In November, a new 10-year bond was issued in nominal amount of EUR 1.25 billion with the fixed annual interest rate of 3.75%, with the aim to refinance the maturing domestic bond. The Bank participated as one of the JLMs in the above-mentioned Government bond issues.

The Bank participated in July as one of JLMs on the Sustainability-Linked Bond of Zagrebački holding d.o.o. on the Croatian market. A new 5-year bond was issued in the total nominal amount of EUR 305 million, with fixed annual interest rate of 4.90%. The new issue of Zagrebački holding represents the largest single bond issue in history of Republic of Croatia (excluding Ministry of finance bonds). Also, the total amount of collected bids in amount of EUR 480 million represents the largest amount of interest received by one issuer. The mentioned issue represents the largest investment by international financial institutions in a single debt security. In addition, it was the first bond issue related to sustainable business of municipal risk issuers in the CEE region.

IV. Financial markets (continued)

The Bank was also in June an active issuer on the domestic capital market. The Bank issued a new 3-year bond, in the total nominal amount of EUR 90.1 million with the fixed annual interest rate of 4.5% with the annual payment. This was the seventh bond issued by the Bank, and the total amount of all bond issuances so far amounts to EUR 750 million.
The Bank is continuously ranked among the leading arrangers of debt securities in the Republic of Croatia, in 2023 with 23.25% of market share (according to Bloomberg), thereby confirming its strategic orientation to support the development of capital markets improving primary market environment.
In the respect of bond issuance on the international market, within Group Markets division matrix organizational structure for origination business for Serbian, North Macedonian and Montenegrin issuers, the Bank has successfully participated in the 4-year Eurobond transaction of Macedonia in the total nominal amount of EUR 500 million.

Debt securities market

In 2023 the bond market underwent notable shifts, influenced by various economic factors and global events. Central to these changes was evolving interest rate environment. As economies around the world grappled with post-pandemic recovery and rising inflation, central banks adjusted their monetary policies, strongly impacting bond yields. The anticipation of rising interest rates led to increased volatility in bond markets, with investors closely monitoring central bank communications.

Croatia joined European Economic and Monetary Union (EMU) in 2023 and throughout the year enjoyed improving macroeconomic conditions, which in turn led to more favorable investment outlook. Bond holders were generously awarded as the Croatian debt, looking at 10-year bonds, tightened by some 30 basis point against core markets. Judging by the current sentiment, Croatia will get an A credit rating in the very near term. That action could possibly put additional pressure on spreads, but we give a marginal chance to that outcome as the current prices already reflect such action.

Government policies and geopolitical events also left their imprint on the bonds market. Fiscal stimulus measures implemented by governments in response to economic challenges influenced sovereign bond issuance and yields. Overall, 2023 will be remembered as year in which Croatia recorded an admirable performance in terms of spread against core markets but suffered greatly in liquidity department.

Equity markets

The stock market in the Republic of Croatia was marked by the transition to EUR and great expectations regarding increased liquidity, which ultimately did not materialize. Despite the reduced turnover, according to the performance of the domestic index, this was one of the best years, and the CROBEX index ended up with a gain of as much as 27.98%, i.e., at 2,533.92 points (1,979.88 at the end of 2022). Positive trends in stock indices almost without exception affected all developed capital markets in 2023, so despite the wars and global uncertainty this has been a very good year for the stock markets.

Stock turnover on the Zagreb Stock Exchange in 2023 was almost 20% lower compared to 2022, despite hopes that the introduction of EUR as the official currency will potentially bring visibility to foreign investors, increase liquidity and higher trading volume. Erste bank achieved a market share of 10% in share turnover on the Zagreb Stock Exchange in 2023. As in previous years, there were no new share issues, takeovers, and attractive capital increases on the domestic market. As a positive example, we can cite the recent release and listing on the regulated market of the so-called National bonds and treasury bills, which for the first time in history were offered to the public, and not only to institutional investors. Overall, looking at the turnover, issuers such as Hrvatski Telekom, Valamar Riviera, Podravka, Adris, ZABA, Atlantska plovidba, Ericsson Nikola Tesla, HPB and SPAN continue to dominate among the more liquid shares. Among the block transactions, shares of Hrvatski Telekom, Podravka and Imperial Riviera achieved the highest turnover.

IV. Financial markets (continued)

The CROBEX stock index ended the year at 2,533.92 points, which is an increase of as much as 27.98% compared to 2022. Among the more liquid issues, among the biggest winners were the shares of Podravka, Končar Elektroindustrija and ZABA. If we look at the stock indices in the region, they all had positive performances. Thus, the Slovenian SBITOP ended the year with a plus of 27.8%, the Romanian BET with a plus of 31.78%, the Austrian ATX with a plus of 9.87%, while the German DAX ended the year with a plus of 20.31%. It is worth mentioning that 2023 was a year marked by the Romanian capital market, primarily due to the initial public offering (IPO) in Hidroelectrica S.A. It was also the largest and most successful IPO in history, in which Erste Group participated.

Custody groups

The year 2023 was marked by the development of application support for the custodial business.

Continuous efforts to develop the range of products and services and coordinated action of numerous organizational units of the Bank have led to a significant increase in interest in investment services mainly of clients from the retail segment, which has resulted in a significant growth in the number of clients from this segment.

The last quarter of 2023 was largely marked by the preparation of the system for regulatory changes related to the valuation of certain asset classes of investment funds, thanks to which work in the new year began without difficulties.

V. Risk management

Risk management is a set of procedures and methods established for identifying, measuring, assessing, controlling, and monitoring of risk, including reporting of risks to which the credit institution is or might be exposed to in its operations. The Bank is obliged to regularly measure and assess the risks identified in its business. Methods of measuring and assessing the risks must include appropriate quantitative and/or qualitative measurement methods and risk assessment that will enable the observation of changes in Bank's risk profile, including the emergence of new risks.

The most significant risks that affect Bank's business operations are credit, market, operational and liquidity risk.

Credit risk is the risk of potential loss due to a debtor's non-payment of obligations towards the Bank, and it arises from possibility that the Bank identifies, measures, follows up on, controls, i.e., actively manages the credit risk as one of the most important risks and determines the existence of appropriate capital level for covering of such risks. Risks related to credit risk are currency induced credit risk, residual risk, sovereign risk, dilution risk and concentration risk.

Market risks represent the risk of loss in open position stemming from change in the movements of the market prices, including changes in the interest rates, exchange currencies and prices of securities. In this sense, market risk include: (i) interest rate risk both in trading and banking book, (ii) currency risk and (iii) equity investment risk.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events, and includes legal risk.

Legal risk means the risk from claim or proceeding due to non-compliance with the legal and legislative provisions of national or international origin or from contractual arrangements or internal rules and/or ethical conduct deriving from national or international norms and practices or statutory responsibilities. It also includes the exposure to newly enacted laws as well as to changes in interpretations of existing laws. Legal proceedings should be considered to be any legal settlements, either judicial, or out of court, such as arbitration, or claims' negotiations. Operational risk definition excludes strategic and reputational risk.

The Bank assesses the reputational risk for assessment purposes due to the strong links with the operational risk (e.g., most of operational risk events have strong impact in terms of reputation).

Liquidity risk is a risk of loss stemming from an existing or expected inability of credit institution to settle its monetary obligations upon maturity. Liquidity risk arises from maturity mismatch between assets and liabilities.

Except above mentioned risks the Bank also manages all other risks that could affect their business operations such as: systemic risk, regulatory risk, business environment risk, ESG risks, etc.

VI. Erste Bank AD Podgorica

In year 2023 Erste Bank AD Podgorica made a pre-tax profit of EUR 18.4 million which is 36.8% more compared to the previous year. Profit after tax is EUR 15.6 million with a return on equity (ROE) of 13.4%, and a return on assets (ROA) 2.0%.

Total operating income was achieved in the amount of EUR 38.6 million, which is 20.6% higher compared to 2022.

Net interest income was in the amount of EUR 30.4 million and by 24% higher compared to the previous reporting period mostly due to growth of interest income of 28.9% and extremely good liquidity position that has contributed to the growth of assets from own sources with additional optimization of liabilities. Net interest margin increased from 4.6% at the end of 2022, to 5.1% at the end of 2023 due to higher money market and other interest rates on loans to customers and banks.

Net fee and commission income increased 11% comperd to year end 2022 and amounted to EUR 7.3 million. Despite a significant increase in costs for card transactions of 40.04%, the cost of fund transfer to foreign accounts charged by Central bank of Montenegro (CBOM) (0.2%) that increased the costs of payment transfer by 85.4%, the Bank achieved a 11% growth in net fee and commission income due to a significant growth in revenues from card transactions, payment transfer and custody transactions, as a result of repricing, growth of users of electronic services and a large number of foreign citizens in Montenegro.

Risk costs was positive in amount of EUR 1.68 million and the biggest impact was release of provisions of retail clients. Credit risk cost for balance exposures amounted 0.34% and was positive, significantly lower compared to the end of 2022, when it was at the level of 0.16%. NPL coverage was 94.9% at the end of 2023, which is a decrease compared to the end of 2022 when it was 107.1%. NPL at the end of 2023 amounted to EUR 28.4 million which is an increase of EUR 1.74 million compared to 2022. Main driver of decrease is the write-off in retail segment and the increase of corporate default client's exposure.

Operating expenses were recorded in the amount of EUR 21.96 million and compared to the previous year they were increased by 15.6% due to the program to increase the standards of employees, especially those with the lowest salaries, to cope with rising inflation, and IT costs due to participation in group projects. Despite an increase in operating expenses of 15.6%, higher operating income of 20.6% contributed to a reduction in Cost/Income ratio to 56.9% while at the end of 2022 was 59.3%.

At the end of the year 2023 total assets amounted to EUR 819 million, which compared to 2022 was an increase of 8.9%. Net loans to customers amounted to EUR 497.9 million and were by 9.1% (EUR 41.4 million) higher compared to end of 2022, of which EUR 262.2 million related to retail lending and EUR 235.7 million related to corporate loans. Total customer deposits increased by EUR 80.4 million in 2023 and amounted to EUR 591.5 million at the end of the year, of which retail deposits amounted for EUR 256.8 million, and corporate deposits for EUR 334.7 million. Market share in the credit portfolio grew for 11 months of 2023 by 0.24% and amounted to 14.93%, while in the part of deposits the growth was 0.69% and amounted to 9.60%.

Retail sector recorded interest income of EUR 17.54 milion, representing 7.61% growth compared to the previous year. Total credit portfolio increased by EUR 8.21 milion (3.1%), reaching EUR 273.12 milion by the end of the year. The growth was driven by disbursment of EUR 72.4 milion through over 10,000 credit applications, just slightly lower than disbursmen amount from previous year by EUR 2.44 milion (-3.36%). However, the number of overall approved credit applications increased by 451 (4.5%). The majority of disbursments was recorded in consumer loans (69.36%), followed by housing loans (21.1%). Housing loans disbursments decreased by EUR 9.37 milion (38.01%) mainly due to limitations on the product side, including fixed interest rate offerings, and limitations on residental project financings from the bank. Secured consumer loan disbursments decreased by 33.71% in 2023, amounting to EUR 5.65 milion, mainly due to shortend maturities from 20 to 15 years. Unsecured consumer loan disbursments increased by EUR 7.2 milion (19.37%). Another interest income growth driver was increased average interest rate, as result from increased share of unsecured consumer loan disbursments carryng higher interest rates, together with increased interest rate in disbursed housing loans.

Despite growth in Retail portfolio, decline in market share was recorded due to slower growth than the overall market, resulted with a market share od 15.59% at the end of November 2023.

VI. Erste Bank AD Podgorica (continued)

Retail commission income increased by 27.62% to EUR 6.82 milion, mostly driven card business fees which increased 32.94% or EUR 1.05 milion, followed by growth in all other categories of commission income.

Total number of clients at the end of 2023 was 108,800, respectively 9,000 below previous year, due to a one-time action in January of closing 17,000 accounts whithout activity in last 5 years. From February 2023 to the year end, number of clients increased from 102,800 to 108,800 (+5.83%).

According to customer service quality survey contucted by Erste Bank AD Podgorica, service quality index increased in 2023 from 9.55 to 9.58.

Total Retail deposit portfolio increased EUR 25.47 milion (+11.01%) in 2023, resulted by increase of 16.36% in sight deposits to EUR 208.5 milion and decrease in term deposits of 7.38% to EUR 48.12 milion. Erste bank AD Podgorica slightly strengthened its market position in resident Retail deposits, with a market share of 10.88% at the end of November 2023.

In Corporate segment, specifically in resident financing, a market share increase of 1.36 percentage points in the first 11 months of 2023 was recorded. This growth, from 14.15% to 15.51%, was triggered by the corporate portfolio growth reaching 8.38% (to the level of EUR 234.8 million) by the end of November 2023, while at the same time, the overall market depreciated 1.07%.

Significant increase in corporate interest income of 66.2% in 2023 (from EUR 7.29 million to EUR 12.12 million), was mainly driven by the increase in variable interest rates based on Euribor. Disbursed annuity loans increased by 2.62% and amounted EUR 72 million. The number of newly approved loans rose by 22.46%, with an average loan amount decrease of 16.2% (from EUR 375 thousand to EUR 314 thousand). The number of new lending clients increased by 59.15%, compared to preavious year, reaching 113 clients in 2023.

The growth of Erste Bank AD Podgorica's corporate deposits during 2023 was EUR 54.96 million, representing a 19.65% increase. The market share of deposits from resident legal entities increased by 10.96%, reaching 11.96% at the end of November 2023.

Throughout the year, the Corporate Sector recorded 9.06% increase in active client number, in total 4,492 companies and enterpreneurs. This contributed to an overall 11.32% increase in commission income.

After integration, S-leasing d.o.o. was merged into Erste Bank AD Podgorica within the Corporate Sector, with confirmation of future growth expectations by achieving 2023 budget figures.

For another consecutive year, successful collaboration was maintained with other members of the Erste Group through the Western Balkans initiatives, resulting in cooperation with 13 new clients based on recommendations from Group members, which led to achievement of the yearly KPI.

VII. Erste Card Club d.o.o.

Erste Card Club in 2023 continues with the trend of growing turnover at sales points, due to higher consumption and a successful tourist season, generating most of the revenue with simultaneous market pressure on merchants' commissions for charge purchases, but also lower usage of credit cards on ATMs. Operating expenses are lower, with efficient collection and stable inflow of new nonperforming loans (NPL) volumes. Share of NPL in on-balance exposure decreased to 4.5% in 2023 (2022: 5.05%).

Other operating expenses in 2023 includes project cost of migration for the transfer of issuing part of business to the Erste Bank, with a significant influence on the Company and ECC net profit in 2023 amounting to EUR 8.2 million, which is 62.8% less than in 2022, when the positive one-off effects derived from the sale of business shares and NPLs.

Operating result is stable in 2023 amounting to EUR 15.1 million and is higher for 2.0% compared to previous year as a result of stable client base, turnover growth, business costs optimization and received incentives of card schemes, which were mostly invested in promotional activities.

Net interest income totals EUR 15.1 million with an increase of 3.9% compared to 2022, due to higher deposit income as a result of higher market rates and higher interest income from merchant service commission (MSC) fees as part of turnover for instalments, regarding turnover growth, but also withholding fees from sales points in that part of portfolio. Net fee and commission income totals EUR 29.1 million representing a decrease of 5.2% compared to 2022 because of pressure on MSC fees despite the strong growth in acquiring volumes, but also due to related interchange fees and card scheme fees. Net trading result is positive in 2023 and amounts to EUR 259.3 thousand, while EUR 228.0 thousand in 2022.

Risk cost in 2023 ended up stable with release of EUR -182.4 thousand, while they were positive in 2022 with an amount of EUR 6.2 million including one-off effects of compliance with Group methodology (change of credit conversion factor (CCF) from 20% to 50% for off balance and rating adjustment). NPL coverage ratio is increased when compared to previous year to 139.3% (2022: 134.0%).

General administrative expenses amounted to EUR 29.4 million in 2023 with a decrease of 4.8% in comparison to 2022. The increase of personnel expenses by 0.9% was caused by overtime hours regarding EURO transition, bonus reservations and salaries corrections for employees. Other administrative expenses are lower by 5.8% YoY as result of lower card production costs, IT services as well as lower legal and collection costs. Depreciation costs are lower by 15.1% or EUR 435.4 thousand.

Other operating result is negative in 2023 and amounts to EUR 4.8 million, which mostly refes to migration costs.

Total ECC assets amounted to EUR 302.1 million as of 31 December 2023 with a decrease of 1.1% when compared to 2022. Total loans to customers – net amount to EUR 261.3 million with an increase of 7.1% compared to 2022 due to growth of charge and instalment portfolio.

Total liabilities at the same time declined compared to 2022 due to total loan repayment to Erste Group Bank (EBG). Total equity amounts to EUR 189.0 million with an increase of 0.8% compared to the previous year, due to achieved net profit. In 2023 there was a dividend pay-out in the amount of EUR 6.6 million for the 2022 result.

General information

Erste Bank had announced the launch of activities aimed at the ECC status change in an official public notice published through the Zagreb Stock Exchange back in 2020, with whom all ECC credit cards will become Erste Bank credit cards by migration and all card users clients of Erste Bank. In the meantime, activities on the projects had been temporarily sidelined due to the realisation of other important strategic projects, primarily the implementation of the euro, which was finalised in late 2022.

Activities regarding project continue in 2023. In the last quarter of 2023 began the testing phase of Bank's system, which includes the processing of personal data of ECC clients and Bank's clients who use ECC cards and who are informed in time. The testing process is implemented based on the Bank and the ECC's identified legitimate interest in line with the General

VII. Erste Card Club d.o.o. (continued)

Data Protection Regulation (GDPR). The clients were also announced for the first time the ECC status change, which will be realized at the end of 2024. The processing of the client's personal data is necessary to ensure correct transfer of data relating to the entire portfolio of ECC credit card holders to the Bank in order to ensure business continuity after the status change and fulfillment of regular contractual relations that ECC entered with its clients, credit card users, as well as the proper functioning of the Bank's system after the implementation of the status change. The integration project of issuing business to Erste Bank had no influence on clients. The regulator is regularly informed about the status of the project.

During 2023 ECC has carried out optimization activities of its product portfolio, whereby users of DC+ cards and DC charge cards with a revolving option were informed about the possibility of switching to other, existing ECC products, which provide clients with the same functionalities. The optimization activities od credit card portfolio will be fully realized by the beginning of February 2024 with a very good response from clients throughout all the stages of migration.

The design of DC Exclusive card was refreshed with improvement of existing and new benefits. The conditions for recalling the right to use insurance policies have been changed, Premium roadside assistance has been introduced and the possibility of bundling with a Visa Platinum card. The previous reward model has been replaced by the D Club rewards program, in which reward euros are collected in the amount of 2% of the cost, and which can be used to reduce the monthly notice of costs.

According to new Erste Group corporate standards, the ECC updated the visuals of the Visa and Mastercard credit cards and optimized the visuals of those brands. By creating all cards, recycled and eco plastics is used according to ECC Strategy on environmental protection. By the end of 2023, 69% of credit cards portfolio was issued on sustainable materials, with the goal of the entire portfolio switching to the same by the end of 2024.

To protect the environment, ECC joined the CO2MPENSATING BY PLANTING, the first Croatian programme to compensate dioxide emissions and neutralize the carbon footprint by planting trees. Out of 2,500 oak tree seedlings for reforestation, the employees planted 1,800 oak seedlings, and the remaining part were planted by students of a Zagreb grammar school.

ECC continues to digitalize business as a strategic goal, with 48% digitally issued cost notices, 75% clients ECC Mobile Application (EMA) users and 54% merchants, users of NaOku application. Along with the continuous improvement of its applications, at the end of the year ECC introduces an additional service: PIN by SMS.

Credit cards and volumes

ECC total number of credit cards as of 31 December 2023 amounted to 378,943 with net increase of 189 cards compared to previous year which resulted in credit card number and market share stabilization. Activities of client identification according to Anti-Money Laundering and Terrorism Financing Law (AML) and already mentioned activities of product optimization were carried out regularly. In 2023 the card sales plan has been exceeded, with achieved total sales of 36,264 credit cards, what is 3.5% higher than in 2022 year.

Company's credit card market share as of 30 September 2023 amounted to 23.42% (YE 2022: 23.25%). The total number of ECC clients as of 31 December 2023 amounted to 302,729 which represents an increase of 0.7% compared to year 2022. The total number of EMA application users amounted to 211,407 which is an increase of 20,716 users or 10.9% compared to year 2022. Sales activities are primarily focused on digital sales channels, which resulted in an increase in the share of digital applications for issuing cards compared to paper applications at 58% (2022: 57%). The trend of digitalization of sales has a positive effect on strengthening the brand image on the market.

VII. Erste Card Club d.o.o. (continued)

Total ECC issuing volume in 2023 increased by 5.1% YoY and amounts to EUR 1.045 million, with market share of 23.63% as of 30 September 2023. In the volume structure, the highest growth was recorded in charge transactions, and then the instalments volume, while cash advance was lower, under the influence of market trends of growth in debit card turnover with a still significant share of cash payment transactions.

Total ECC acquiring volume increased by 22.2% YoY with market share of 18.36% as of 30 September 2023. Higher volumes were mostly influenced by strong growth of Visa and Mastercard volumes due to a good touristic season and consumption growth. Total number of ECC transactions in 2023 exceeded 101 million with an increase of 20.0% compared to 2022.

VIII. Erste&Steiermärkische S-Leasing d.o.o.

Erste&Steiermärkische S-Leasing d.o.o. (Erste Leasing) net profit in 2023 amounted to EUR 7.6 million whereby a growth of EUR 8.7 million was achieved compared to 2022 when a loss of EUR 1.1 million was realised due to provisions for legal case in the amount of EUR 8.5 million. ROE was 12.9%, which represents an increase of 14.8 percentage points, and ROA was 1.6%, which represents an increase of 1.9 percentage points compared to 2022.

Net interest income amounted to EUR 10.9 million, achieving a growth of 2.7% compared to 2022. Interest income represents the most significant contribution to the Company's result and is higher by EUR 7.6 million compared to 2022 and refers to interest from finance lease. Interest expenses increased by EUR 7.3 million in 2023.

Income from operating lease amounted to EUR 7.3 million and is lower by 5.2% compared to 2022 due to the decrease of operating lease in the portfolio.

General and administrative expenses amounted to EUR 12.35 million and were higher by 1% compared to 2022 mainly due to the increase of personnel expenses and the impact of inflation on other administrative expenses.

In 2023, the Company achieved release of risk provisions in the amount of EUR 1.36 million, while in 2022 release of risk provisions amounted to EUR 2.38 million. NPL decreased by 32.4% to the amount of EUR 6.76 million with NPL coverage of 70.6% (70.9% in 2022).

Erste Leasing concluded 6,984 new leasing contracts in 2023 with total value of EUR 247 million, and a market share of 13.9% as at 31 December 2023 according to the latest published data of the Croatian Financial Services Supervisory Agency (HANFA).

Total assets of Erste Leasing as of 31 December 2023 amounted to EUR 508.87 million, which represents an increase of 19% compared to 2022. Net finance lease receivables and other receivables increased compared to last year by 21% and amount to EUR 465.5 million with a share of 91.5% in total assets.

Tangible assets amounted to EUR 31.1 million with a share of 6.1% in total assets and mostly refer to assets under operating lease and increased by 6.7% compared to 31 December 2022.

Total liabilities to credit institutions and customers as of 31 December 2023 amounted to EUR 436.2 million with a share of 85.7% of total liabilities and are 23.5% higher compared to 2022. As at 31 December 2023 Provisions amounted to EUR 0.6 million and were reduced compared to 2022 by EUR 9.3 million due to the end of the court case. Other financial liabilities which relate to finance lease liabilities for the lease of vehicles and business premises rose due to the conclusion of new lease agreements, while other liabilities, which relate to received deposits and advances from customers for operating lease, follow the increasing trend of operating lease in the portfolio.

Total equity amounted to EUR 62.8 million in 2023 and is higher by 14% compared to 2022.

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Non-financial Report

Non-financial Report

One of the fundamental guiding principles in the business of both Erste Group and Erste Bank Croatia (EBC) is the Statement of Purpose, which rests on seven pillars. Expanding and ensuring prosperity, accessibility, independence and innovation, profitability, financial literacy, focus on people, and serving civil society are six out of the seven pillars, and largely cover the aspects of sustainable business that EBC aims to achieve. What makes Erste Group different is the last, seventh pillar of entire Erste Group's business, i.e. the so-called third question. Before every decision, the questions “Is this profitable?” and “Is this legal?” are asked, but the question that makes the difference, both for EBC and for anyone affected by Erste, is “Is this right?” This is the question that drives EBC to develop its services and products to the highest potential, thus making the greatest contribution to the individual and society as a whole.

Through corporate social responsibility, the Bank supports and promotes the development of different social segments through a wide range of activities, aimed at the wellbeing of its clients and the much wider social community in which it lives and operates, through supporting numerous charity and educational institutions, as well as culture and sport institutions across Croatia. In the process, the Bank always takes into account the specific regional characteristics and local social needs. Corporate social responsibility activities are transparently reported through various channels as well as through non-financial report which the Bank has been including in it's Annual Report for years in various forms.

Erste Bank Croatia's vision is to be the best bank in Croatia that takes care of the security of its clients and offers highest quality products and services, taking account of the wellbeing of its employees, shareholders and the community. The aim of non-financial report is to better inform all interested parties about this vision and everything EBC does in order to achieve it. Through the segments of business, social and environmental responsibility EBC strives to fulfil its mission, i.e. motivate and support its clients, employees, shareholders and the community in working together to achieve prosperity.

EBC's efforts in this area are accompanied by a commitment to transparent and open communication with the media as mediators between the Bank and the general public. In recent years, these efforts were reflected in the advertising campaign “Believe in Yourself”, through which EBC aims to promote positive social and economic values, integration, inclusion and fellowship of all individuals in the society, regardless of age, gender, ethnicity, religious or political affiliation, sexual orientation or marital status.

Implementation of the obligation of non-financial report

As already stated, Directive 2014/95/EU, which entered into the Croatian legislation at the end of 2016, stipulates the obligation of non-financial report for all companies with more than 500 employees. In this respect, the non-financial report of Erste Bank Croatia was issued as part of the Annual Report.
ECB's non-financial report has been prepared in accordance with the Global Reporting Initiative 2016 (GRI standard: core option) Guidelines. As a minimum, the report covers the business, social and environmental responsibility of EBC, without consolidated companies.

Sustainable development goals

The Sustainable Development Goals are also known as the Global Goals and were adopted by the United Nations in 2015. There are 17 in total, and by fulfilling these goals, the society is expected to achieve a more sustainable living and a better life for every individual, as well as peace and prosperity for all. Prosperity for the society and every individual is one of EBC's goals, which it is trying to achieve through its business operations.

In general, Erste Bank Croatia, as well as Erste Group, supports all 17 Sustainable Development Goals. But taking into account its type of business and its impact on society, EBC can significantly contribute by working on and achieving 9 goals through strategic initiatives, by redirecting financial flows and adjusting its operating model:
1. No poverty (SDG 1)
2. Good health and well-being (SDG 3)
3. Quality education (SDG 4)
4. Gender equality (SDG 5)
5. Clean water and sanitation (SDG 6)
6. Affordable and clean energy (SDG 7)
7. Sustainable cities and communities (SDG 11)
8. Responsible consumption and production (SDG 12)
9. Climate action (SDG 13)

Analysis of material topics

The analysis of material topics is the first step to drafting a non-financial report. It provides the organisation with a better insight into the topics that its stakeholders consider relevant and influential. Through talks with some of Erste's stakeholders, the Bank identified several important topics that will be addressed in this non-financial report. In order to make the information as clear as possible, the report is structured in such a way that each of the topics is classified under a specific segment of the interested public, i.e. stakeholders. The following groups have been identified as EBC's stakeholders: clients, employees, investors, society, environment, and suppliers.

Some of the topics, such as Anti-Corruption and Financial Literacy, are relevant to more than one interested groups of the public, but for better organisation of the report, they were included in one section.

In Table 1, Erste Bank Croatia has divided the topics it considers materially relevant to its stakeholders, that is, to the interested public.

Clients

Responsibility in business (SDG 1, 12)

Responsibility in conducting business, especially in relations with clients, represents a fundamental tenet of EBC's business operations which is reflected in offering special products and services aimed at different groups of clients in response to their current and future needs and life situations. Additionally, incentives for small entrepreneurs and incentives for innovation are necessary, and with its socially responsible banking programme, Erste banka strives to enable as many people as possible to access the Bank's financial resources and services. Similarly, EBC has established and applies the fundamental principles, policies and guidelines related to preventing corruption, managing conflicts of interest and resolving reported irregularities and protecting whistleblowers (whistleblowing programme).

Client satisfaction (SDG 4, 6, 7, 11)

EBC is strongly focused on customer experience and strives to be a leading bank in terms of consumer protection and outstanding customer experience. Its strategic goal is to provide excellent, simple, accurate, transparent and timely service. In order to achieve this, in doing business with clients the Bank applies the highest standards, and great attention is paid to the greatest possible transparency. A wide range of products and services adapted to the different life situations of individual clients also serves the purpose of achieving the greatest possible client satisfaction.

Right to personal data protection

The protection of personal data is a fundamental right of every citizen, and in the banking sector it is of extreme importance. Erste Bank Croatia is continuously working to improve its IT systems and educate its employees to ensure the highest standards of personal data protection. In order to protect the IT system from security threats, the Bank continuously works on upholding and improving compliance with the PCI/DSS standard and compliance with the requirements of the Erste Group as well as guidelines for managing IT systems issued by the national regulatory body.

Employees

Diversity and equality (SDG 4, 5)

Gender equality is a global issue that prevents peaceful and stable development and progress of humanity. EBC is investing extensive and systematic efforts to combat gender or any other inequality in the workplace, and for this reason it adopted the Diversity Charter, in which it undertook to implement the diversity and non-discrimination policy in the workplace and business environment. Apart from that, other regulations have been adopted with the aim of combatting inequality.

Training and skill development (SDG 4)

Continuous development of employees is one of EBC's key principles. Upgrading professional knowledge, acquiring new competencies in line with the trends and the market, and continuous personal development are the basic assumptions for the career path of all employees.

Employee work-life balance and health (SDG 3, 5)

The health and well-being of everyone, but primarily its employees, is one of the sustainable development goals identified by EBC as extremely important, especially considering the current circumstances. This sustainable development goal is the cornerstone for meeting all other goals. In this respect, EBC provides numerous benefits for its employees, from free annual physical examinations to organised sports activities. EBC systematically monitors market trends and developments and works to improve its business practices.

Society

Social banking (SDG 1, 11)

Income inequality, geographical inequality, gender inequality, unfair distribution of resources by age – the subject of inequality is reflected in all aspects of life. For EBC, this sustainable development goal can be achieved through social banking, which provides equal opportunities and accessibility of funding through inclusion and offering business opportunities to different social groups. Additionally, increasing financial literacy, which allows everyone to have the same starting point in the knowledge of finance, is one way for laying good foundations for achieving progress towards this goal.

Financial literacy (SDG 4, 11)

Acquiring good education is one of the fundamental rights of every individual, and knowledge is one of the main drivers that pushes society forward. In 2018, the Bank saw a need for increasing financial literacy in the society and launched the programme of free workshops and video training sessions called the School of Smart Finance. By the end of 2022, more than 11,000 participants attended the workshops online and in person.

Social responsibility (SDG 11)

Through its sponsorship and donation activities, EBC is involved and actively supports various initiatives and projects that contribute to the development and improvement of the society as a whole, both locally and throughout the Republic of Croatia. In addtion, Erste Bank Croatia endeavours to nurture a two-way communication with the local community and achieve as much transparency as possible.

Environment

Efficient managing of environmental impacts (SDG 6, 7, 12, 13)

Climate change is no longer a projection set in the future but has become a reality in which humanity lives and the consequences of which it has to deal with. More and more companies are realizing their capabilities in managing climate change and responding to the climate crisis, which is why an increasing number of them are introducing more sustainable and environmentally friendly business practices. In the field of ecology and environment, Erste Bank Croatia strives towards highest quality business processes that reduce environmental impact, which is achieved through strategic planning by establishing policies that prescribe relevant standards, but also through day-to-day operations, such as the furbishing of branch offices. The bank is also trying to encourage its customers to adhere to high environmental standards, and it also expects its suppliers to implement best quality business processes that reduce impact on the environment.

Suppliers

Responsibility in selecting suppliers (SDG 6, 7, 12, 13)

Erste Group, including Erste Bank Croatia, sees its suppliers as partners in developing the sustainability of its operations. When selecting suppliers, the Bank takes into account sustainability and corporate social responsibility, and chooses companies that do business in line with international standards that include social and environmental impacts.

Table 1: Analysis of material topics

STAKEHOLDERS	TOPICS OF MATERIAL ANALYSIS	TOPICS OF MATERIAL ANALYSIS ACCORDING TO GRI STANDARDS	CHAPTER IN NON-FINANCIAL REPORT
Clients	Responsibility in operations Client satisfaction Right to personal data protection	Anti-corruption (GRI 205-3) Client satisfaction (additional material topic)	Anti-corruption and tax transparency Products and services Client experience and contact centre, Right to personal data protection
Employees	Diversity and equality Trainings and development of competences Employee work-life balance and health	Diversity and equality (401-3, 405-1) Trainings and education (GRI 404-1) Occupational health and safety (GRI 403-1, 403-3, 403-5), Flexibility in workplace	Diversity and equality and prevention of discrimination Trainings and education Safety, Employee work-life balance and health
Society	Social banking Financial literacy Social responsibility	Anti-corruption (GRI 205-3) Financial literacy programme (additional material topic)	Dialogue with the local community School of Smart Finance Sponsorships and donations, humanitarian campaigns
Investors		Economic results	
Environment	Effective management of environmental impacts	Emissions (GRI 305-5)	Emissions Waste management
Suppliers	Responsibility in selecting suppliers	Responsible selection of suppliers (GRI 308-2)	Suppliers’ responsibility

Clients

Anti-corruption

In order to achieve its vision and mission as well as business goals, Erste Bank Croatia strives towards a high-quality and continuous implementation of the highest ethical standards in corporate management and individual employee behaviour.

Within this framework, EBC has established and implements the fundamental principles of socially responsible business as well as policies and guidelines regulating the prevention of corruption, the management of the conflict of interest and the system for handling reported irregularities and whistleblower protection (whistleblowing programme). The **Bank's Code of Conduct** regulates the basic rules of corporate behaviour of the Bank's employees with the aim of preserving and further developing the reputation of the banking business and the Bank in the society, promoting the idea of professionalism, responsibility and transparency of operations.

The Conflict of Interest and Anti-corruption Policy set out the minimum standards for combating corruption and bribery and standards for managing general types of conflicts of interest. In its operations, Erste Bank Croatia applies the highest ethical standards of corporate governance and individual behaviour. The Bank enters new business areas only if the business is fully in compliance with the positive regulations and is based on integrity and highest ethical standards. The Policy covers principles for managing general and specific conflicts of interest, types of conflicts of interest, general and specific principles for combating corruption and bribery and rules for managing conflict of interest. The Bank works on raising awareness and educating its employees on recognising situations in which a conflict of interest might arise, and on the measures, principles and actions that need to be implemented in everyday business with the aim of preventing and managing conflict of interest. The working environment must be free from any inappropriate influence or behaviour.

Erste Bank Croatia has zero tolerance for any form of corruption and bribery in relation to its employees, Management Board, clients and business partners. Corruption and bribery should also be considered a particular type of conflict of interest in the operations of Erste Bank Croatia and an inappropriate behaviour that leads to violation of law. Based on the Code of Conduct and the Statement of Purpose, EBC has committed to applying strict and binding rules to combat corruption and bribery and to manage conflicts of interest, which it is aiming to achieve through the principles and rules of the Conflict of Interest and Anti-corruption Policy.

The bank does not tolerate behaviours that go against the current rules and regulations, bank's legal acts and ethical principles. Based on the whistleblowing programme as a part of the **Whistleblowing Policy**, all persons employed in the bank, regardless of the legal basis of their work for the bank, are urged to promptly provide information about any behaviour of other employees, clients or third parties that is not in compliance with the valid rules, regulations, bank's legal acts or ethical principles. The Policy sets out the basic principles, the internal procedure for reporting irregularities, and provides for an efficient protection of people who report irregularities, that is, whistleblowers. The Policy is obligatory for all persons employed at Erste Bank Croatia, regardless of the legal basis of their work for the Bank, and applies to everyone in the working environment.

EBC continuously educates its employees with the aim of raising awareness of the importance of managing conflict of interest and preventing corruption, as well as acting in accordance with ethical standards. Furthermore, through training, the bank tries to encourage employees to report irregularities such as fraudulent actions, violations of procedures and the bank's legal acts.

In 2023 bank employees were receiving regular training on topics related to conflict of interest, combating corruption and the principles of the Bank's Code of Conduct and whistleblowing programme/reporting irregularity. A total of 2,320 employees were trained on combating corruption and conflict of interest, while 2,429 employees were trained on the topic whistleblowing programme/reporting irregularity.

Tax transparency

Erste Bank Croatia has always been dedicated to tax compliance as well as the observance and consistent implementation of tax regulations. Since it is dedicated to corporate social responsibility, the Bank takes great care to pay all its dues for the public needs of the country it operates in and to pay a fair tax amount, i.e. the amount the Bank is obligated to pay under tax regulations. The EBC Group Tax Office for Croatia was established in March 2017 in order to ensure this.

The activities of the Office include ensuring tax compliance of Erste Bank Croatia and its subsidiaries in Croatia as a whole, coordination of tax policies of affiliate companies and cooperation with tax authorities. The aim of the Office is to provide good and efficient tax risk management for EBC Group, in response to new tax regulations, which include EU directives and local regulations.

In addition to tax compliance, another important task of the Group Tax Office is to support its colleagues in the Bank and subsidiaries to optimise tax requirements related to their everyday operations. The purpose of the Group Tax Office is to support business lines of the Bank and incorporate existing tax know-how and expertise into every segment of the Bank’s operations. The Tax Office closely collaborates with other organisational units in the Bank.

The Tax Code of the Bank was adopted and approved by the Management Board early in 2017, regulating the position of the Bank towards tax issues and tax risks. The document is publicly available on the website of the Bank and its purpose is to establish tax principles to be followed by all employees, as well as to raise awareness on the importance of taxes in the Bank and the entire EBC Group. The Tax Office continually organises trainings and workshops for its employees for this purpose.

Sustainable financing and investments

The international Erste Group has set clear goals on the way to transformation into a more sustainable life and a better world for every individual. Financial institutions have the greatest leverage for encouraging such a transformation and supporting clients in this activity by financing that kind of business segment. In addition to being crucial for a better future for everyone, it also affects the management of the company's own climate risks and the achievement of its own net zero goals. Thus, the international Erste Group was the first group based in Austria and Central and Eastern Europe to join the initiative of the United Nations - the Net-Zero Banking Alliance, and at the same time undertook to harmonize its credit and investment portfolio with net zero emissions by 2050 at the latest. Also, the Group joined the Financial Initiative of the UN Environmental Protection Program (UNEP FI) and signed the UN Principles of Responsible Banking. The main objective of these Principles is to provide banking services in a responsible manner taking into account socially, environmentally and ethically sensitive sectors/industries, with primary application to the energy, defense/weapons industry and the gaming and gambling industries.
Aware of its responsibility in the common goal of more sustainable business operations, Erste Bank in Croatia follows and systematically implements all policies and regulations that come from the international Erste Group, which is why it has adopted and operates according to the Principles of Responsible Financing.

Impact, risks and opportunities

According to a comprehensive analysis of climate challenges, legislative and economic effects of climate change in the region, and a general analysis of the business environment conducted by Erste Group, financing or investing in companies exposed to physical and transition climate risks represents a significant risk in the medium to long term for core banking activity. Financing such activities and neglecting the fundamental principles of sustainability also represents a significant reputational risk.
The greatest opportunity lies in the establishment of sustainability criteria that ensure that companies with negative effects on sustainability are avoided and that financial resources are directed to those projects and those companies that contribute to the overall transformation. The transformation towards a sustainable economy requires enormous efforts by all participants, as well as significant investments. Therefore, under condition that it can provide the necessary knowledge, experience and tailor-made products for clients whose demand for sustainable products is increasing, Erste Group is able to secure new business opportunities while making a valuable contribution to a sustainable future.

Objectives and measures

The international Erste Group has set a goal to significantly increase the share of sustainable financing and investment in the short and medium term, so it is expected that by 2026 the share of sustainable financing in the segment of business clients will reach 25%, thus supporting the path towards net zero greenhouse gas emissions. The goal was also set in the private clients segment - by 2027, to achieve a share of 15% of housing loans that are used to finance sustainable real estate.
Similar goals for various issues, relation to clients, employees and the environment, were also set at the local level and can be found in the rest of this report.

Various measures were implemented in order to reach the set goals, both at the level of the international Erste Group and at the local level. For example, Erste Bank in Croatia ensured more sustainable lending with housing EKO loans, and a bond was agreed with the International Finance Corporation from which such loans are financed. Special emphasis is placed on achieving the goals set for the new volume of sustainable financing, which in 2023 amounts to slightly more than 17% of the total volume in the segment of private clients and 10% of the total volume in the segment of the Bank's business clients.

One of the measures supporting the green transformation is the transparency of information provided by the company, and international regulations, standards and guidelines from the European Union level play a major role in this, especially the Taxonomy Regulation and the SFRD Regulation (Sustainable Finance Disclosure Regulation). In order to comply with the requirements of the Regulation on Taxonomy, Erste Bank in Croatia has in recent years used information from the portfolio screening conducted by the international Erste Group for all members of the Group and published the GAR (green asset ratio) as an indication on a voluntary basis. Given the changes and limitations in the calculations set by this regulation and the significant challenges in ensuring the continuity of information, data from the Taxonomy Regulation for Erste Bank in Croatia for 2023 will be available within the consolidated report of the international Erste Group at the end of March 2024.

Criteria for sustainable financing

In order to ensure sufficient transparency regarding financing that supports the green transformation, Erste Group has defined criteria for its classification as sustainable financing, which is based on the criteria of the EU taxonomy. There is a fundamental difference between "sustainable financing" and "financing in line with the EU taxonomy", where the former is a subset of the latter because it meets the necessary criteria.

The reason for the conceptual distinction lies on the one hand in the complexity and on the other hand in the limitations of the EU taxonomy. In the relevant reporting period, the technical criteria for the review of only about 70 economic activities were thereby ensured. Erste Group clients face significant challenges in terms of proving compliance and data quality itself. In addition, due to the intensity of information, the EU taxonomy is currently limited by the legislator to (non)financial companies subject to NFRD reporting. The SME client portfolio, which is significant for Erste Group, is therefore largely not taken into account.

These limitations and the current focus of the EU taxonomy led Erste Group to make the term "sustainable finance" more suitable for the portfolio. The point is that financed economic activities that have not yet been proven to be compliant with the EU taxonomy can make a demonstrable, significant contribution to the green transition and are sustainable from that point of view. With a pure focus on the compliance of the regulatory taxonomy in business management and reporting, this aspect would be completely neglected, and it significantly contributes to the transition.

The criteria for classifying individual financing as sustainable are defined by the guidelines for sustainable financing within Erste Group's "Sustainable Finance Guideline - SFG" as part of a comprehensive due diligence procedure, which is based on the criteria of the EU taxonomy and aims to identify investments in the transition to climate neutrality, a climate-resistant and ecologically sustainable economy.

In this way, capital flows can be directed precisely towards green transformation and ensure a significant contribution to environmental protection. Client groups currently excluded from EU taxonomy regulations are also included, and their limited capacity to provide information is considered. It should be noted that the fundamental priority is given to the review of the complete criteria of the EU taxonomy. However, if the taxonomy criteria DNSH (do not significant harm) or MSS (minimum safeguards) cannot be sufficiently proven due to the lack of information on customers, internal verification of DNSH and MSS is carried out.

Criteria for sustainable financing (continued)

Due to the expansion of the EU taxonomy to additional companies as part of the introduction of CSRD reporting requirements and the generally improved availability of information needed for user verification, an increasing share of "EU taxonomy-compliant financing" within "sustainable financing" is expected, which is the reason why development of GAR will be key to Erste Group's business strategy.

Products and services

Responsibility in business operations, especially when it comes to how clients are treated, represents a fundamental characteristic of EBC's business operations which is reflected in offering special products and services aimed at different groups of clients in response to their current and future needs and living circumstances. Business with clients is in line with the sustainable development goals set by the Bank, and care for the environment, society and processes is part of our daily operations. In this respect, Erste Bank Croatia is looking to provide products and services that foster environmental sustainability and reduce CO2 emissions, offer financial services to vulnerable groups of clients. It is also striving to be a partner in changing the financial habits, while improving internal processes toward greater efficiency. Also, the Bank's goal is to actively support sustainable projects.

In 2023 the Bank initiated the process of establishing cooperation with businesses offering sustainable products and services, while adjusting the housing “EKO” loans available to residents, for purchasing, building or upgrading homes with the energy rating of A+, A and B. Such loans can be used to improve energy efficiency (by installing equipment for using renewable energy sources, interventions on property helping reduce energy consumption or installing thermal insulation in residential buildings). Cooperation with partners was further intensified in terms of offering more favorable credit to clients who decide to purchase products and services from our partners, and cooperation was agreed with partners who offered the bank's clients benefits for purchases.
Among the new initiatives, there were loans for eco vehicles introduced in March, which finance vehicles (cars, bicycles, scooters) with electric or plug-in hybrid drive and hydrogen drive.

In addition, during last year, active efforts were made to increase the visibility of the products of EBC and the group and to raise awareness among clients about energy efficiency issues. So, for example, open days were organized in December where clients had the opportunity to hear more about the offer of financing solar panels and comprehensive energy renovation of real estate in EBC, as well as from partners with whom the bank cooperates. Considering the excellent feedback, the plan is to expand this initiative to other parts of Croatia.

In cooperation with the Hrvoje Požar Energy Institute, a calculator was prepared for clients to calculate savings in CO2 emissions and the equivalent in the number of planted trees, as well as the investment return period. It is available on the bank's website, and four calculators are currently published: for investing in photovoltaic solar systems, solar systems for the preparation of hot water, energy-efficient vehicles and overall renovation of real estate.

Debit cards made of recycled material are still produced, aiming to replace all existing cards by the end of 2026 and that process continued through 2023.

In addition to internal processes, the Bank is also trying to reduce use of paper in business with clients, therefore, various notifications were additionally digitized, and the digital contracting of products such as accounts, loans and savings is becoming more and more intense. The digital process of product activation is also carried out in branches in such a way that bank employees together with clients go through the process digitally through George.

Through the Bank's operation it is strived to take care of vulnerable groups of clients, offering them special tailored products, such as loans with specific terms and lower banking fees for pensioners. The Bank offers a special savings product for children called *Medo Štedo*, which aims to facilitate the first contact between children and the Bank and promote the habit of saving money by offering favourable interest rates and a customised rewards programme. There is also a special programme for young clients - a special current account intended for children and teenagers, including a debit card, which makes it easier for parents to teach them about financial responsibility without having to pay an additional account administration fee.

Products and services (continued)

In 2023, the Bank continued to actively participate in subsidised residential construction programmes (POS) and subsidized housing loans programmes for the purchase or construction of real estate in cooperation with the Croatian Real Estate Agency (APN).

Changes in client behaviour and habits, technology and the regulatory framework continuously require adjustment of the existing business model and the role of individual distribution and communication channels. Branch offices are increasingly becoming centres for consulting and resolving more complex client requests, while clients are increasingly using digital services and self-service devices to perform transactions and resolve simpler requests. In 2023, activities in the branch transformation project continued, which in addition to a new visual identity, is characterised by a new way of working focused on the advisory role of employees and a unique user experience for clients. In this context, it is interesting to mention the opening of the first specialized branch of Erste Bank Croatia - the Advisory Center for Housing Financing, which aims to provide clients with a quality service on the topic of housing financing in Zagreb and its surroundings through several different channels, digitally through a remote meeting service or physically.

Two key concepts that have been implemented in 2022 – Financial Health Zone and harmonisation with the ESG regulation, have continued to develop during 2023. Financial Health Zone is a concept that provides support to clients in achieving a healthier financial balance by providing them with access to transparent and understandable information about their current financial situation, while the ESG operating model focuses on business sustainability. Last year, a new version of the Financial Health Zone tool was published with improved functionalities that enable clients to gain a better insight into the indicators of the financial performance of their business, i.e. their financial health. In the part of the dialogue with clients about financial health, the new version of the tool provides the possibility of a more precise analysis of key parameters and a focus in communication on the basic assumptions of further sustainable and successful client business. The successful synergy of tools and dialogue about financial health resulted in the continuation of the trend of high positive ratings of client satisfaction.

The Bank is aware of the growing importance of environmental, social and management risks as one of the key topics, and during the year in the segment of business operations with business entities, clients' awareness of ESG issues was raised through various activities. For example, at the end of 2023, a lecture and panel discussion was held for small and medium-sized business clients on general ESG topics and on the topic of the current and future impact of ESG transformation on their business, contemporary trends in this area and regulatory obligations, current and the future. Representatives of companies participated and shared their experiences within the framework of the ESG process and the overall transformation in the food and tourism industry. The tool calculator for energy efficiency was also presented, which, like for private clients, was developed in cooperation with the Hrvoje Požar Energy Institute, and which aims to provide an informative calculation of potential financial savings and environmental impact after applying energy efficiency measures (the calculator gives an informative calculation on energy savings, cost reduction, contribution to environmental protection through CO2 reduction, as well as information on when clients can expect a return on investment).

As in previous years, the Bank continued implementing existing and securing new financial instruments by signing agreements with European Investment Fund (EIF), Croatian Bank for Reconstruction and Development (HBOR) and Croatian Agency for SMEs, Innovation and Investments (HAMAG-BICRO).

At the beginning of 2023, the active use of EIF guarantee instruments began within the InvestEU program based on the contract signed by the bank with EIF as the first in Croatia and one of the first in the entire European Union with a maximum guarantee volume of 50 million euros. As part of this cooperation, five guarantee instruments are available to clients that enable them to realize green and sustainable investments, projects with innovative and digitized components, and support is provided to clients in the cultural and creative sectors. Also, through the separate guarantee instruments of the InvestEU program, special attention is paid to microfinancing and socially responsible business.

Products and services (continued)

The Bank also continued its partnership with HAMAG-BICRO and HBOR through the use of existing guarantee instruments, which were open until the end of the year. In accordance with its strategic guidelines, the Bank provided continuous support to individual business sectors with a special emphasis on those that contribute to green, innovation and digital goals. For example, through HBOR's portfolio insurance policy, significant assistance was provided to exporters affected by the crisis in Ukraine who needed liquidity for their activities, and the total contracted volume of the portfolio in the amount of EUR 90 million was almost fully utilized. Also, investment loans with low interest rates were secured through HBOR ESIF loans for growth and development, and the active use of HAMAG ESIF individual and portfolio guarantees continued. As part of the National Recovery and Resilience Plan (NPOO), interest subsidy programs have been implemented for HBOR's credit lines and for HAMAG-BICRO's ESIF individual guarantee, which significantly reduce the cost of financing for clients with sustainable projects. These subsidies are the first financial instruments defined in Croatia that are based on the principle of not causing significant damage to the environment.

Over the last couple of years, Erste Asset Management, a member of the ESB Group in Croatia, has offered several investment funds on the market based on investments related to ESG principles. It is currently the fastest growing segment of investment funds in the EU, and past experiences show great interest from clients in investing in this type of funds.

Digitalisation

The Bank is continuously working to digitise its operations and provide new and improved opportunities to clients.

The KEKS Pay app, which was offered to users by EBC at the end of 2018, registered more than 410,000 users at the end of last year. The app is intended for everyone, regardless of their bank of choice, so 71% of users are clients of other banks, while the remaining 29% have an account with Erste Bank Croatia. The KEKS Pay app initially started providing the service of sending and receiving money between friends, but it developed a number of new services since then, including the purchase of mobile phone vouchers and payment of tolls and parking, making donations, paying in web shops and stores that support KEKS Pay, among others. The latest innovation - receiving and paying digital utility bills has been used by an increasing number of users each month. Last year, intensive work was done to expand the scope of this functionality, so now it is offered by more than 85 different companies and local self-government units.

After its introduction in 2020, the pan-European digital platform George continued to develop over the years, providing new, innovative features to its clients. Apart from bringing a better mobile and online banking user experience, George also represents a platform for innovation, so new features are being added and with each new update the platform becomes smarter, more advanced and intelligent. By the end of 2023, George had almost 410,000 active users per month.

Continuous upgrading of EBC’s websites, which in 2023 also followed the needs of clients with all the necessary information should be mentioned too.

Client experience and contact centre

Erste Bank Croatia places great attention on client experience and aims to be a leading bank in terms of consumer protection and excellent customer experience. Providing excellent, simple, accurate, transparent and timely service has been set as a strategic objective.

In order to achieve this, the Bank operates beyond the framework of what is legally prescribed and, for example, EBC enables the transparent and simple submission and resolution of complaints, with more than 67% of complaints solved within three working days.

Therefore, the client experience is managed systematically and continuously, through a process defined in five steps:
- By listening to the client’s voice
- By implementing service quality standard
- By educating employees
- By measuring client’s experience, and
- By identifying areas for improvement and defining an action plan of improvement.

Client experience and contact centre (continued)

The purpose of measuring client experience is to understand their expectations and make sure they are satisfied with the service provided. How much clients are satisfied with EBC's services, products and processes, as well as the knowledge, expertise, procedures and conduct of employees towards the clients are all measured. The measuring results provide specific feedback and the opportunity to improve a client's experience in all contact points with the bank.

The sources of clients' opinions come from several sides and from several perspectives. There is: *mystery shopping*, which determines whether employees behave and act in accordance with the pre-defined standards and procedures; client satisfaction surveys, which examine client's satisfaction with the provided service or contracted product (the sample is more than 40,000 respondents per year), and clients' complaints, which are collected and analysed in detail.

All these measurements are carried out continuously, the results are regularly analysed and reported to the executives, and action plans for the improvements are made. At the bank level, the Committee on Service Quality and Client Experience also operates and its permanent members are the Management Board and directors of the second line of management from those sectors that directly communicate with clients, as well as other sectors that have a significant indirect impact on clients' experience. The Committee meets four times a year and determines the objectives of client experience, monitors the level of customer experience and decides on the priorities for improvement.

There are several basic goals which relate to the client experience, and which are aimed to be secured in the coming period. Further development of services and the possibility of contracting products on digital channels, improvement of the efficiency in processes in order to provide customers with a service in the shortest possible time, and continued transformation of the network in a way that puts the client in focus are just some of them.

Changes in client expectations, behaviour and habits, the technological revolution and regulatory frameworks inevitably require a redesign of the current business model and the role of branch offices as distribution channels for products and services of the bank and its partners, which is why the network has gradually transformed. The bank network transformation project according to the service model has been ongoing since 2018, with some of the branches redesigned for the first time according to the Branch Evolution concept, which is an upgrade of the service model for branch redesign. Other business premises of Erste Bank Croatia have also been reconstructed, and the plan is to continue redesigning branch offices according to the new concept.

EBC is available to clients through multiple channels in order to facilitate access to information and provide clients with the right to issue a complaint at any given time. In addition to standard communication channels (phone, e-mail, chat, video call), the EBC Contact Centre can also be contacted via WhatsApp and Viber, while the EBC digital clients are provided with video identification services.

EBC's long-term focus on excellent client experience in all contact points with the bank has also been recognised by clients, as is shown in the CXI (Customer Experience Index) results, according to which EBC ranked first in 2023 in terms of client satisfaction in the segment of private clients and semi and small entrepreneurs. The Bank took second place in the area of satisfaction of micro-entrepreneurs. Such a result proves that Erste Bank Croatia has been communicating with its clients successfully, timely and transparently in the uncertain situations we have encountered over the past few years.

Right to personal data protection

Personal data protection is basic right of every citizen. The principles and rules regulating personal data protection ensure the protection of private lives and other human rights and fundamental freedoms when collecting, processing and using personal information. It is guaranteed to every individual regardless of nationality, residence, ethnicity, skin colour, gender, language, religion, political or other affiliation, national or social background, health, income status, birth, education, social position or other characteristics.

a) GDPR (General Data Protection Regulation)

Application of the General Data Protection Regulation has brought new definitions and clearer obligations with regard to data protection and the right of every citizen to security and privacy. Erste Bank Croatia used this regulation as an opportunity to get even closer to its clients through transparent operations and as an additional motive for raising the security level of the entire security system.

The GDPR introduced new definitions, described existing concepts in more detail, strengthened the rights of natural persons and one of the objectives was to raise information security to the highest level in the area of accessing and managing personal data. In relation to the processing of individuals' personal data, EBC is continuously working on improving relevant business processes. The Bank achieves a high level of personal data protection and ensures that clients, employees and contractors can excercise their rights in accordance with positive legal regulations by following best practices and industry standards of information and communication infrastructure management, transparent communication and other technical and organizational protection measures.

b) PCI/DSS (Payment Card Industry Data Security Standard) certificate

To protect the IT system from various security threats, the Bank continuously works on upholding and improving compliance with the PCI DSS standard and the requirements of the international Erste Group as well as guidelines for managing IT systems issued by the national regulatory body.

In 2023, EBC again successfully completed the PCI DSS re-certification, thus confirming the Bank's compliance with this complex international payment card security standard. The compliance, as well as the review of the PCI DSS scope, are extremely demanding and involve continuous collaboration between technical, business and security teams on compliance with the standard's requirements.

Employees

EBC's goal is to be the best bank in Croatia that safeguards the security of its clients and provides highest quality products and services, while at the same time taking care of the well-being of its employees, shareholders and the community. Caring for employees is one of the cornerstones of EBC's culture, and is demonstrated through various activities that the Bank undertakes to ensure that all employees are in a comfortable and high-quality working environment, characterised by mutual respect and consideration.

At EBC, we appreciate the individual. This applies to the Bank's thousands of clients as well as its employees. Excellence is possible only when we are surrounded by employees with personality, talent and experience. For that reason, EBC strives to ensure that its employees work in a motivating working environment by providing career-related benefits, with emphasis on meaningful and purposeful work, intellectual betterment and opportunities for acquiring new knowledge and skills, good and healthy interpersonal relationships, economic security and stability, and ultimately better care for one's own health. Additionally, special attention is given to gender equality and reduction of inequality, ensuring quality working conditions and social dialogue, preventing human rights violations and discrimination, and striving for maximum transparency and dialogue with the local community.

Diversity and gender equality and prevention of discrimination

Erste Bank Croatia has a total of 2611 employees[1], of whom 1913 are women, while 698 are men. Among the Bank's workforce, employees aged 30 to 50 predominate.

Table 2: Employee structure

TOTAL		< 30 YEARS OF AGE		30-50 YEARS OF AGE		>50 YEARS OF AGE	
women	men	number	%	number	%	number	%
1,913	698	315	12%	1,835	70%	461	18%

Women account for 73% of employees while the remaining 27% are men. The percentage of women in managerial positions has been slowly but steadily increasing over the years. In 2023, a new female member of the Supervisory Board was appointed and now women hold 25% of positions at top management levels, which includes the Supervisory Board and Management Board. At other high management levels, the Management Board and B-1, the percentage of women managers is the same as in the previous year, while in middle and lower management the percentage has increased slightly, to 67%. The goal is to maintain these positive trends going forward, and continue promoting women leaders so that the percentage of women leaders is stable and growing over time.

The average age of the Bank's employees is 40.9 years, while the average age of employees in management positions is slightly higher at 46 years.

[1] *This number represents the total number of active employees, whether they work full time or part time.*

Diversity and gender equality and prevention of discrimination (continued)

Table 3: Structure of managing bodies

SUPERVISORY BOARD	women	men			
	43%	57%			
MANAGEMENT BOARD	women	men	<30	30-50	50>
	0%	100%	0%	20%	80%
B-1	women	men			
	43%	57%			
B-2, B-3, B-4	67%	33%			
Total Top mgmt, Supervisory board, Mgmt. board	25%	75%			
Total Top mgmt	36%	64%			

The Code of Ethics regulates the prevention of discrimination, while the Rules of Procedure and the Collective Employment Agreement describe the reporting procedure and the steps that must be undertaken by persons authorised to resolve complaints. Through a special decision, the Management Board appointed members from the Legal Affairs and Human Resources teams as persons responsible for resolving complaints related to the protection of dignity and protection against discrimination within EBC.

Special attention is paid to preventing discrimination in the recruitment and selection process – EBC's job postings are open to all interested candidates whose competencies and experience meet the requirements of the workplace, regardless of gender, age, nationality and similar. Managers participate in individual or group counselling to raise awareness about unconscious bias so they could make quality and impartial decisions regarding the selection of candidates, and the prohibition of discrimination is also integrated as a key element into the Employment Policy.

EBC strives to create an environment that supports diversity, respect and appreciation of others, whether they are employees, contractors or clients of the Bank. The principles of diversity and inclusion that the Bank is committed to are defined in the Diversity and Inclusion Policy, available in Croatian and English. This document is regularly updated, and it describes the principles of a culture of inclusion towards both clients and employees. In 2021, the Policy was significantly revised in cooperation with Diversity Management at the level of Erste Group, and the Erste Group Statement on Diversity was added, which applies to the entire international group. At the level of the Erste Group, Diversity Management is organized as a 'Group Function' and is a part of Erste Holding, as a function within the Group People & Culture sector.

Long-term goals related to the demographic profile of top managers were revised and modified at the end of 2023 at the level of the entire Erste Group, and defined for a period of five years. By 2028, all daughter companies of Erste Group are expected to have a minimum of 30% of women on the supervisory and management boards, as well as 33% of women at the B-1 management level. To support the realisation of these long-term goals, plans have been made to implement measures in 2024 to promote women managers at the B-1 level which represents the pool of successors to top management positions. In 2024, women must account for a third of all newly appointed B-1 managers and there needs to be one woman on the list of successors for every B-1 position. In 2022, EBC adopted a new process for developing successors for B-1 positions in which diversity, especially in relation to gender, was one of the key criteria when nominating and selecting successors. A pool of potential leaders, which consists of just over 60% of women, was defined through this process. In this way, EBC is already in compliance with Erste Group's measures and strives to provide maximum support to the inclusion of women in top management positions and to breaking the 'glass ceiling'.

In addition to the goals defined by Erste Group, the Bank also monitors locally defined goals related to the demographic profile of senior management at the level of the Supervisory Board and the Management Board. In 2023, the goal was to have women account for 23% of positions at this level, which was achieved (women now account for 25% of positions) by appointing a new female member of the Supervisory Board.

Diversity and gender equality and prevention of discrimination (continued)

In addition to supporting women managers, the focus is also on ensuring equal opportunities for advancement and development of employees from different age groups, especially those at either end of the curve (under 30 or over 50 years old), and encouraging successful cooperation in multi-generational teams. Thus, special attention is given to ensuring that lifelong learning is always part of development initiatives and that employees aged 50+ are equally involved in all training activities. In order to facilitate functioning in multigenerational teams, workshops for managers and webinars for employees are organized on this topic.

In mid-2020, management began regular reporting on the basic parameters of diversity within EBC. Data on gender and age distribution among different groups of employees are now part of the monthly employee report compiled for directors. In this way, diversity is monitored through numbers, while at the same time management's awareness of the importance of diversity management is strengthened. In 2021, the report was redesigned and is now easily accessible to the management through the internal intranet platform.

EBC responds to a variety of initiatives, panels and lectures on diversity and actively promotes it at all professional conventions outside the bank.

In the past few years, EBC has launched and implemented a number of initiatives and activities under the slogan #različitoplavi which aim to support diversity within the bank. The main sponsor of these initiatives is the President of the Bank's Management Board, Christoph Shoefboeck, who is sometimes actively involved in some of the activities himself.

Throughout the year, educational workshops on the topic of stereotypes, prejudices and unconscious bias are regularly held, adapted to different groups of employees and delivered in different formats (online, in person, through webinars...).

In 2023, a new format for promoting diversity and equality was launched – a blog published on the e-learning platform which features texts, videos, interviews and articles on topics such as people with disability, gender stereotypes, LGBTIQ+ people and similar. This content is available to all employees and, in a less formal format, encourages them to consider these topics.

The bank is also continuously raising awareness about the importance of respecting diversity by using internal communication channels, primarily the intranet. Special attention is paid to including diversity as an important topic in the onboarding process. In order to raise awareness of the importance of gender equality, all materials, instructions, and guidelines for new employees are written in the feminine gender, and an explanation is provided as to why this is the case and why diversity is important in EBC. Additionally, the Bank is continuously working on providing benefits that support diverse groups of employees and contribute to work-life balance.

When advertising available job positions, in addition to the usuall "ž" and "m" denoting female and male gender respectively, in late 2021 the Bank also introduced the gender-neutral designation "d" for other. In that way, the Bank wanted to send a message about the importance of respecting diversity not just internally within the Bank but also externally to the public, thus contributing to breaking stereotypes in our social environment.

During 2022, the Bank redesigned the way it communicates with potential employees, through all contact channels: including the career section of the Bank's website, content on various job websites and listings for open positions. Messages related to appreciating diversity are an important part of the new communication content. Thus, the Bank now uses photos which show people of different genders and ages or people with disabilities, and the text of job advertisements contains a note about diversity as an integral element of the Erste culture.

In 2023, diversity as a characteristic of company culture also became part of presentation materials used at various events aimed at future employees – job fairs, student fairs and similar. Additionally, training on the topic of diversity within Erste is part of the student paid work placement programme. In this way, the Bank wants to present itself as a work environment that respects and appreciates diversity.

Diversity and gender equality and prevention of discrimination (continued)

With the aim of breaking stereotypes, for the past several years EBC has been encouraging the fathers among its employees to use parental leave by sending a motivational e-mail describing the benefits of participating in taking care of a child and instructions on how to exercise this right. The initiative has had visible positive effects since it was launched, and around 50% of fathers employed by EBC opted to go on parental leave in 2023, while some data indicates that this number is just 7% in Croatia as a whole. Furthermore, since the autumn of 2022, legislation regulating the so-called father's leave is in force, making it mandatory for employers to allow every father to take 10 to 15 days leave. For EBC, implementing this initiative is not a challenge, as the Bank already encourages male employees to actively take on the parental role.

In order to make it even easier for employees to balance their parental role and private life with work obligations, the bank supports flexible work models and working from home whenever the work organization allows it. These options, although they are also used by men, primarily provide support to women employees due to the still traditional role of women in society, which makes them more involved in taking care of children, family, housework, etc.

In 2023, EBC participated in the LEARN2BE project run by the web portal Zaposlena.hr, which aims to empower women on the labour market. The Diversity Coordinator moderated two workshops on the topics of diversity and gender stereotypes in the business environment. The Bank also sponsored a project focused on empowering women in the banking and financial services sector, organized by the Women in Adria organisation.

To promote the equality of women in the IT sector, the bank encouraged internal IT experts to apply to be part of the collective of female experts/speakers at conferences, launched by the web portal Netokracija. This facilitates the promotion and greater visibility of women in the predominantly male-dominated IT sector.

Similar to the previous year, in May 2023 the Bank marked the European Diversity Month with various activities related to the theme. In cooperation with Erste Group, an interesting webinar was organized on the topic of different generations in the same team and through internal and external communication channels, content was published on topics related to diversity, such as, for example, the marking of the International Day Against Homophobia. The #različitoplavi blog was launched on the e-learning platform, a new format for presenting and popularizing the acceptance of diversity.

Mid-May, Human Resources Director and Erste Card Club Management Board member participated in the Eurochambers Women Network (EWN) Round Table on the topic of gender equality and ESG in corporate governance and decision making. The round table was organized by EWN, with the support of the Croatian Chamber of Commerce and the Italian Union of Chambers of Commerce (Unioncamere).

In May, EBC managers had the opportunity to participate in a webinar entitled Persons with Disability as Part of Human Resources which was organized in cooperation with the Zagreb Centre for Professional Rehabilitation. The Centre provides support and training to persons with disabilities, preparing them for active involvement in the labour market and helping them find a work environment where they will have the opportunity to show what they know and can do. At the webinar, the Centre's experts presented persons with disability from a somewhat different perspective and, by sharing real-life examples and interesting information, they provided advice on how to approach persons with certain disabilities and communicate better with them. President of the EBC Management Board Mr. Christoph Shoefboeck gave the introductory speech and attended the whole webinar, thus showing how important topics like these are for Erste's company culture.

The Bank has been working with the Zagreb Centre for Professional Rehabilitation since 2022, when the Bank got involved in the project that provided work training for persons with disabilities. The pilot project was successfully implemented, during which a young person with cerebral palsy underwent mentoring with the aim of acquiring new work knowledge and skills, as well as learning to socialize and cope in new situations. In order to ensure that the project is successful, the entire team, which was joined by the person with the disability, first attended a workshop on accepting diversity. After the completion of the mentoring and successful integration into the team, the project ended in the best possible way – the person with the disability became an employee of the Bank.

In 2023, there were no cases of discrimination recorded in EBC.

Diversity Charter

The Diversity Charter is a document drafted individually by each country, and the text of the Charter is signed by business and other organisations, thus undertaking to implement diversity and non-discrimination policies in their workplaces and business environment. The project started in 2018, and EBC is one of the signatories of the Charter, with the aim of emphasizing diversity in creating a stimulating work environment.

The Croatian Business Council for Sustainable Development is an organisation that promotes corporate social responsibility in Croatia, and the Charter serves as a contribution to social development and the promotion of equal opportunities for all social groups. EBC is an active member of the network of experts in this field at the European Union level.

In addition to that, EBC is a member of the Alliance for Gender Equality, an initiative that brings together companies that advocate for increasing the number of women in management and other positions, equal pay for equal work and equal opportunities for advancement. Every year, women representing the Bank attend the Alliance's Forum marking the International Women's Day and participate in discussions on relevant issues related to the equality of women.

For the past few years, EBC has been participating in the European project Diversity@Work which is coordinated in Croatia by the Diversity Charter. Around 80 organisations from 10 EU countries participate in this project which aims to test tools for promoting diversity in organisations, adapt them to practice and ultimately enable organisations to utilize the tools for their needs. As in previous year, in 2023 the Charter organized an online training course in which several EBC employees took part, this time on the topic of Workplace Inclusivity Leaders.

Code of Ethics

The Code of Conduct defines the fundamental rules of business behaviour of the Bank's employees for the purpose of preserving and further developing the reputation of banking in society, promoting the idea of professionalism, responsibility and transparency of business. The Code of Conduct is a reference point for all procedures and behaviours and serves as a link in policy documents that regulate the behaviour of employees when performing activities. Similarly, the Code imposes the need for responsible behaviour, with respect for others as well as sustainability in all aspects of business, which protects the Bank's good reputation and fosters trust in the institution.

By adopting the Code of Conduct, the Bank wishes to ensure a certain standard of quality and business sustainability through the prism of its employees and corporate culture. Similarly, abiding by the Code is a continuous process of development which does not have an expiration date and is mandatory for all employees. It is available in Croatian and English.

New employees learn about the guidelines from the Code of Conduct through workshops via MS Teams (sales network) and an e-learning training course. Since the Bank introduced a new LMS system at the end of 2021, the e-learning course has been redesigned and is now available to employees on their official mobile devices as well.

The Code of Conduct was updated in 2023, and the e-learning training course that was mandatory for all employees of the Bank was updated alongside it. By the end of the year, the course was completed, and the test was passed, by 92% of total employees for whom this was mandatory.

Internal service quality

The process of internal service quality management is one of the ways to establish cooperation between different units of EBC and EBC Group. Through this process, employees have an opportunity to provide open and constructive feedback about cooperation with various organizational units and at the same time they can request feedback on their work, based on which they can improve the ways in which they cooperate with others.
This process also establishes criteria that internal services must meet, in the form of guidelines and standards, but also in the form of key performance indicators (KPI) for the second management line, which are defined based on results of internal research. The internal quality KPIs extend also to lower hierarchy levels, as objectives describing certain activities that need to be undertaken in order to improve cooperation with others. The systematic and continuous work on internal quality is important primarily so the Bank could ensure excellent services for external clients, and also to strengthen corporate culture based on community and teamwork.

Vezica

In the past few years, the “Vezica” programme was established as an additional recruitment channel, to attract new, high-quality IT employees using the network of existing employees. Together with the IT sector and organizations, certain IT positions were singled out which the Bank has a shortage of, and existing employees are rewarded if they proactively recommend a candidate who becomes an employee at the Bank. In this way, it is ensured that existing employees become promoters of EBC, while also ensuring the selection of candidates who might not have applied through a standard job ad.

Continued and quality cooperation with employee representatives (Workers' Council and Trade Unions)

The Bank continually invests efforts in maintaining good cooperation with employee representatives so that this open communication channel could also contribute to the growth and development of corporate culture, the organisation as a whole, and all its employees. This is achieved through an open-door policy and regular monthly meetings between the employer and the representatives of employees. The Collective Employment Agreement was first concluded in 2006 and since then it is regularly renewed upon expiration successfully and in the spirit of mutual cooperation and goodwill.

In addition to this, Erste Bank Croatia also actively encourages knowledge sharing between organizational units, sectors and employees. Work-training meetings are regularly organized with all organizational units as an opportunity to share information, attend various workshops etc. Work-training meetings are organized within one organizational unit or several related units and are a part of the Bank corporate culture, with the purpose of advancing the collective knowledge and awareness of employees within different organizational units. Sharing knowledge improves and develops already established processes, but also establishes new ones, with the vision of improving the level of shared direction in operations and corporate culture. After the pandemic, in 2022 the Bank went back to organizing the work-training meetings the old way, in person, which contributed to better connections between employees and a sense of community.

Blue elephant

This is a corporate culture platform that was launched with the purpose of actively managing ECB’s corporate culture. It is a common denominator for all activities, values, and behaviours through which corporate culture is defined and supported. The name and identity of the Blue Elephant are manifested through a shared and systematic description of all activities of the Bank, the values, behaviours, and characteristics that define and support corporate culture and its development.

The concept, vision and mission of the Blue Elephant are defined through the Erste journey, that is, through the following segments of corporate business and employee involvement: recruitment, collaboration, impact and development management, consequence management and innovation.

Blue Elephant activities and all related communication are based on the principles established by the Statement of Purpose, Erste Group's strategic document which gives priority to promoting and ensuring prosperity, serving the civil society and people, as well as prioritizing correct procedures over profitability.

#radimpametno

Prompted by the changes in the way of working, communication and cooperation caused by the pandemic, in mid-2020 the Bank launched the initiative #radimpametno (#worksmart) – a platform aimed at enabling smarter and better work and focusing on the real values that are important to both employees and clients of EBC. The idea behind the name of the initiative was to encourage reviewing, adapting and changing everything that is not in accordance with common sense, and which relates to the future of work.

The initiative is conceived as a platform through which a future organisation of work is created, with a focus on adapting the culture, processes and infrastructure used in work in EBC. During 2021, a series of activities were carried out focused on these aspects, and the first phase of the project was completed at the end of the year.

#radimpametno (continued)

#radimpametno activities are divided into three areas and significant achievements have been achieved in each of them:

- Infrastructure
  - complete technical requirements for #radimpametno mode have been ensured for all bank employees: 1,200 mobile devices and 700 laptops distributed, mobile data plans improved, headphones distributed to everyone, network and Wi-Fi infrastructure improved
  - tools have been created so employees could successfully use the technical equipment
  - MS Teams has been implemented as a collaborative tool with instructions and training provided to all employees
  - adaptation and renovation of business premises has been completed in Bjelovar and initiated in Zagreb
  - rental of additional business premises has been abolished and significant savings were achieved

- Culture
  - flexible work models have been introduced where possible, primarily the model of working from home according to the “3:2 or 2:3” system
  - guidelines for “smart” meetings and communication via e-mail have been defined and put into practice
  - “Development Friday” is promoted – Friday as a day without meetings, dedicated to personal and team development
  - Erste Flexi Leader and Erste Flexi Employee model has been defined and promoted and development activities are organised in support of these models
  - new LMS system has been implemented supporting #radimpametno values – modern, easy to navigate, accessible via mobile devices

- Processes
  - key company processes, recruitment and onboarding, have been redesigned in accordance with #radimpametno principles
  - #radimpametno principles were defined as development goal for all employees in 2021
  - entire organisation has been encouraged to reflect and redefine critical processes in the context of #radimpametno principles

In 2022 the project continued, and it included several important activities:

- Infrastructure
  - after mobile devices and laptops were provided to employees, all unnecessary landlines were cancelled
  - through further refurbishment of office space, desk-sharing was introduced in a part of the organization

- Culture
  - flexible work models continue to be supported where possible, and a new work-from-home work model, involving monthly scheduling of work-from-home days, was introduced for IT and Digital part of the organisation
  - based on the Erste Flexi Leader model, the Bank launched the process of planning successors for top management positions, future leaders were identified, and a development programme for them started at the end of the year

- Processes
  - the so-called Erste PUNKT, a central point for internal services related to office work, was introduced with the aim of increasing efficiency

#radimpametno continued in 2023 as well. Office space continued to be refurbished to facilitate desk sharing, and the flexible work models have become standard that is implemented whenever work organisation allows it.

The ROAD program of development activities intended for successors to top management positions was implemented fully in the first half of 2023. The program was attended by 52 colleagues from Erste Group who completed 13 modules focused on different aspects of leadership. They considered and discussed various topics related to modern business - including digitization, data science, changes in business models, positive intelligence, psychology and modern concepts of team management. The program included various self-assessment tools, individual consultations and online and "live" workshops.

Trainings and education

Continuous employee development is one of EBC's key principles. Upgrading professional knowledge, acquiring new competencies in line with the trends and the market, and constant personal development are the basic assumptions for the career path of all employees.

As in the previous year, online activities (webinars, online workshops, e-learning materials) accounted for a significant part of training activities due to their practicality and efficieny, but a large number of "live" training sessions and workshops was also held. In 2023, a total of 786 trainings were organized, of which 334 were internal and 452 were external. The topics and content of the trainings were truly diverse: including expert and regulatory trainings, trainings aimed at strengthening professional and leadership skills, as well as trainings focused on personal development, diversity and well-being.

Table 4: Number of hours and average number of hours of training at EBC

	WOMEN	MEN	MANAGERS	EMPLOYEES
Number of hours	71,295	25,186	19,856	76,625
Average number of hours	37	36	67	33

Development needs are determined using the Training Needs Analysis (TNA) which analyses strategic competence needs, the existing level of knowledge in the organisation, as well as competence trends for a particular business area in the coming period.

In accordance with the TNA results, educational activities are created and organised and the optimal form of training is defined — webinar, online workshops, e-learning, coaching, mentorship, internal knowledge transfer, in-house rotations, project work, etc.

The main focus of development activities is divided into:

a) Expertise — professional training specific for individual functional areas — professional seminars and workshops, certifications, conferences and similar.

b) Personal development — training aimed at developing personal competences such as presentation and communication skills, negotiation, conflict management and others.

An important part of development activities relates to leadership skills for managers — including motivation and team management, situational leadership, empathetic leadership, using leadership models and tools, and instructions for managing hybrid and multigenerational teams. In 2023, several development programs for managers were implemented that were adapted to the specific challenges of individual business areas (credit risk management, non-financial risk management, contact centre, IT). Activities related to the successor development program for top management positions were also completed. The program included 13 modules dedicated to different aspects of leadership.

Another category of personal development that culminated during the pandemic is the protection of employees' mental health and coping with uncertainty. Employees were offered content related to the challenges of working from home, work-life balance during isolation caused by the pandemic, coping with stressful events and psychological empowerment. Topics concerning both mental and physical health continue to be very important. For this reason, the emphasis on wellbeing-related training continued in 2023 – including how to manage expectations, how to recognize and treat stress, how to balance family and professional obligations, and how to take care of your psycho-physical health as a whole. Among webinars that were held were: "Connection between mind and body," "What children need from us" and "Power of persuasion (placebo/nocebo)." Video recordings of these lectures are available to employees on the e-learning platform.

All employees were offered the opportunity to sign up for a certain number of training courses at their own initiative, regardless of the type of work they do or their job position. They are offered a number of open training content in the form of shorter webinars or online workshops, which they can register for in accordance with their individual needs and interests.

Trainings and education (continued)

One important training channel is Erste Guru, a local online learning system that provides access to various training topics in the form of videos, presentations and similar. Erste Guru is also a place where employees receive all mandatory, regulatory training — such as training on current product offers, sales skills, GDPR, competition rules, cyber security topics, etc. In this way, the reach of development activities in the organization is greatly accelerated and expanded. In the past few years, training related to leadership skills, as well as training focused on mental and physical health, has been in particular demand.

Last year, development activities covered 95% of the training needs defined through the TNA. A significant part of these activities was organized and held by the Bank's internal trainers from business organizational units or by Human Resources employees, which shows that the internal knowledge base and the potential of internal trainers are still being used very intensively.

The average number of training days per active employee stood at 4.7 in 2023.

Table 5: Average number of training days per active employee

	2020	2021	2022	2023
	4.25	5.20	4.75	4.70

Employee programmes

Due to business line needs, various tailor-made programmes for specific groups of employees continued in 2023 as well:

- *Erste Start* – a modular programme for newly appointed managers aimed at developing leadership skills and soft skills
- *Erste Forward* – a modular programme for managers aimed at upgrading and refreshing leadership and soft skills
- *HR refresh* – a programme for line managers on practical examples and solutions related to operational staff management (labour-related legal issues, managing working time, performance management, etc.)
- *UP* – programme aimed at developing managerial and sales skills in the corporate banking sectors
- *Retail Leadership Academy* - programme aimed at developing managerial skills in the retail banking sectors
- *Processing Leadership Academy* – programme aimed at developing managerial skills in the Processing sector
- *Next Level IT Leadership Programme* – support programme for managers in the IT sector
- *ROAD Programme* – development activities for successors to B-1 positions
- *Data Academy* – expert programme for experts from various areas
- *Tips & Tricks* – programme for managers with tips related to most important leadership areas (feedback, stress management, taking responsibility, etc.) tailored to meet the needs of individual organisational units
- Specific targeted programmes for individual organisational segments, depending on identified development needs

Erste Bank Croatia employees also have the opportunity to attend various specialized training courses organized by the owner, Erste Holding. These training courses meet the needs for specialized training which is needed but are either not available on the market or there is not enough experts to organize an in-house program.
In 2023 the following were implemented:

1. Agile Coach Development Programme
2. Business Analysis Qualification Programme
3. Certified Scrum Master Course
4. Scrum Product Owner Certification Course
5. Transfer Pricing
6. Non-Financial Risk Manager
7. Strategic Risk Management Training Programme
8. Front Office Credit School
9. Group Operations Development Programme
10. PMI Agile Certified Practitioner Programme
11. Sales Training Programme
12. Sampling Training

Employee programmes (continued)

A special emphasis is also placed on identifying and developing talents, i.e. employees who show a lot of potential. International programmes are organised for them at the level of Erste Holding, as well as at the local level. Development programmes are organised in cooperation with local and international educational institutions and experts, but largely also via internal transfer of knowledge, through internal trainers and educators.

Employee work-life balance and health

In recent years, EBC has been putting emphasis on employee wellbeing, and all activities and initiatives are grouped under the name Well.being.

The goal of Well.being is to develop a culture in which employees take care of themselves as well as each other. It is in line with the purpose and priorities of Erste Group and forms the basis of common value – for the employer, for the employee and for the wider society.

Existing activities and initiatives are merged, structured and improved, and new ones are introduced, in line with employee interests.

The elements of well-being cover interrelated areas that impact each other. The importance of individual elements changes in different life situations, but they all need to be represented and there needs to be a balance between them. Special attention is paid to the needs of different groups of employees, and initiatives are periodically created just for them, thus integrating the caring for each other into everyday business.

Work environment culture that encourages employees to take care of their own health is nurtured, and financial benefits that provide economic security, making it easier and simpler to realize plans and fulfil wishes. The career is more than a job, and a meaningful and purposeful job is an important tool for its development. The defined development path of each employee allows them to acquire new knowledge and skills. EBC is aware that life is more than just work, which is why quality interpersonal relationships are cultivated - to create a pleasant and high-quality working environment throught respect for each other and respects for each other's differeneces. The support in professional and private challenges is also present as is celebrating joint successes and learning from failures.

Since 2022, employees have had access to the Zdrava glava platform that arose from a need for psychosocial support, which has continuously been provided to employees since 2020. The initial idea behind the psychosocial corner in 2020 was to help employees adapt to working from home and deal with the long-term pandemic circumstances and the consequences of devastating earthquakes, by talking to the expert team and reading articles about current topics published on the intranet. In this way, employees were encouraged to be proactive in taking care of their psychological health. The Erste phone line for psychological support, supported by in-house experts, turned out to be very useful after the earthquakes that struck Zagreb area and Sisak-Moslavina County.

Today the Zdrava glava platform is a logical result of employer's concern and employees' interest in the topic of mental health. The platform's fundamental goals are: break taboos and destigmatize the topic of mental health, talk about it more clearly and loudly, foster a culture in which *it is okay to say that we are not okay*, and connect physical and mental health, which together form an inseparable whole.

The Zdrava glava platform deals with a wide range of topics and is present on several internal communication channels available to all employees. In addition to the active work of the in-house psychosocial support team, which is available to employees via e-mail, telephone and anonymous questionnaires, specially designed workshops and webinars led by top experts are also organized. Furthermore, the Erste Guru online learning platform offers educational materials in the form of videos, expert articles, quizzes and quick help tips. The topics covered are vital and of great importance for the business and private environment: stress and burnout, depression, gratitude, empathy and many others.

Content offered by Zdrava glava platform has addressed employee's needs excellently, which is reflected in the large number of employees that have participated in webinars and training sessions. On average more than 150 employees participate in webinars on mental health topics.

Employee work-life balance and health (continued)

Alongside caring about their physical and mental health, EBC also focuses on the financial health of its employees. In 2022, Erste Group launched WeShare, a program for distributing shares to employees in which all Erste Group subsidiaries could participate, including EBC and affiliated companies in Croatia. In addition to the distribution of shares, employees were also given the opportunity to further invest in Erste Group shares at their own choice and capabilities, and received additional shares as a return for the purchase. The WeShare programme continued in 2023 as well.

In order to achieve Well.being goals, EBC provides the following benefits to its employees:

- training and development programmes focused on professional growth and development, and additionally lectures and workshops that are not focused on business topics;
- internal job openings available to all;
- annual awards depending on the results achieved, bonuses (Easter, Christmas bonus, recourse, Christmas gift for a child, jubilee awards in accordance with years of work spent in the Erste Group, solidarity allowance for e.g. birth or adoption of a child, death in the family...), reimbursement for meal expenses, reimbursement for travel expenses, payments to a closed voluntary pension fund
- Erste Group stock ownership plan WeShare;
- flexible working hours when the work process allows itt (flexible working hours, shorter Fridays, different work start and end schedules, possibility of part-time work);
- private health insurance policy at a polyclinic with free annual physical examination, with a cheaper price for indicated examinations, voluntary health insurance policy at employer's expense, 24-hour accident insurance, preventive flu vaccination at employer’s expense; Covid-19 vaccinations organised in the largest cities and Bank locations;
- Multisport – a co-financed membership fee for various sports facilities throughout Croatia, participation in sporting events (banking games, humanitarian races, football league, etc.);
- paid leave for physical examination, blood donation, relocation, birth of a child, the first day of school and kindergarten, wedding, for educational purposes, corporate volunteering, participation in cultural, sports and other activities organised by the employer, etc.;
- unpaid leave in other life situations which require more time devoted to private obligations and solidarity;
- cheaper products of the Bank and affiliated companies and additional benefits in terms of cheaper prices of services and products provided through a wide and stable network of external partners in several categories (e.g. culture, sport, health, beauty, entertainment, travel, education...);
- various initiatives that provide entertainment for employees and their children during their workday, such as marking the Ugly Christmas Sweater Day by wearing Christmas sweaters on a given day in December, or organising appropriate activities for children (art competitions, collecting Christmas gifts for children living in homes for children without parental care).

All health-related benefits are available equally to all employees.

Table 6: Total number and rate of new employees during the reporting period

WOMEN		MEN		< 30 YEARS OF AGE		30-50 YEARS OF AGE		>50 YEARS OF AGE	
number	%	number	%	number	%	number	%	number	%
151	74%	54	26%	95	46%	108	53%	2	1%

Table 7: Total number and rate of employee fluctuation during the reporting period

WOMEN		MEN		< 30 YEARS OF AGE		30-50 YEARS OF AGE		>50 YEARS OF AGE	
number	%	number	%	number	%	number	%	number	%
226	12%	96	14%	105	32%	175	9%	42	11%

Employee work-life balance and health (continued)

Table 8: Rates of return to work and retention for employees who have used the right to maternity leave

2022				2023			
WOMEN		MEN		WOMEN		MEN	
number	%	number	%	number	%	number	%
203	100%	19	100%	93	96%	25	100%

Safety

In order to ensure the integrity of its business processes and thus to protect the personal data of its employees, clients and associates, EBC is making continuous efforts to raise the level of security - a key area for the regular operation of the Bank. Raising awareness and educating EBC employees is one of the key foundations for successful and continuous operations. All employees are required to attend safety training on an annual basis, and special attention is also paid to new employees who are required to pass a set of initial trainings, which include the topics of security.

Safety at work is an important part of the Bank's daily operations, and over the past few years, due to various cirumstances, this segment has become extremely important.

Occupational safety as a system prescribes a range of organisation measures in work processes with the aim of protecting employees from injuries, work-related illnesses as well as securing their ability to work throughout their careers. In implementing occupational safety, EBC uses basic, special and approved rules, and the primary legal framework is set through the Occupational Health and Safety Act. Employees within the Bank are trained in different segments. They receive theoretical and practical training, depending on the type of training required. Since the employer is responsible for all persons employed, each new recruit will be assigned a mentor before safe working practice training. The purpose of the training is to inform workers of all the facts and circumstances which affect or are likely to affect their safety and health (relating to the organisation of work, risks, safe work procedures, etc.), to clarify and train workers for the practical application of the occupational safety measures they are required to apply during work, in accordance with the Risk Assessment. Safe working practice training is conducted in accordance with all applicable regulations of the Republic of Croatia. Upon completion of the training process, a document is issued as evidence of qualification, a uniform 'ZOS form' — Record of evaluation of a workers' ability to apply safe working practices.

The occupational safety system includes the development of a Risk Assessment, which includes all risks related to tasks in all job positions at the Bank. After analysing the type and level of risk intensity, the resulting plan of measures provides proposals for the application of basic and specific occupational safety rules, i.e. the application of the principles of occupational safety (elimination or risk mitigation, de-risking of workforce, ring-fencing employees from risk and vice versa, use of personal protective equipment) and implementation deadlines, persons responsible and control methods in the implementation of established occupational safety measures.

Occupational safety also covers fire protection training and insistence on evacuation in case of emergency. In addition, by maintaining facilities based on SLA (Service Level Agreement within the maintenance agreement) and the legal obligations, direct attention is paid to employees' health through regular cleaning of ventilation ducts, air conditioners, office cleaning and disinfection, DDD measures (disinfection, disinsectisation, deratisation) and other preventative space maintenance. The field of occupational safety also includes occupational medicine, which provides employees with pre-employment medical examinations and pre-employment, periodic and extraordinary medical examinations and control check-ups for jobs with special working conditions, in accordance with the applicable occupational safety regulations, at the employer's expense. After the first examination, all subsequent examination costs, if performed within the legal deadlines, are charged directly to the HZZO.

Safety (continued)

EBC has delegated three occupational safety experts whose task is to provide professional assistance to the employer and its representatives, employees and workers' representatives in charge of occupational safety for the implementation and improvement of occupational safety. In addition, the occupational safety expert participates in the risk assessment process, performs internal supervision over the application of occupational safety rules, encourages and advises the employer and his representatives to remedy occupational safety deficiencies identified by supervision, and also performs a number of other tasks related to the coordination and management of training of workers related to safe working practices.

Salaries

EBC's salaries and benefits policy is guided by the principles of transparency, fair approach and equality of treatment that has an internal and external perspective. Internal equality of treatment is achieved when employees feel they are fairly rewarded in relation to the relative value of their workplace within the Bank, while external equality of treatment is achieved when we reward employees competitively in relation to the market. Employees' salaries are regularly analysed in order to determine whether there are gender-based differences, and in accordance with the results, concrete steps are taken.

Salary grades for all positions are published on the intranet, as well as their values, and are available to all employees. They also have access to all the benefits they are entitled to in different situations in their lives (related to health, career, special occasions and work-life balance), which the bank is committed to provide in prosperous times as well as in difficult times. Key monetary benefits are also communicated on the Bank's website.

Society

Social banking

Erste Bank Croatia sees entrepreneurship as a positive model for solving social issues or situations. From the bank's perspective, supporting a sustainable entrepreneurial project instead of a one-time sponsorship and donation can be a long-term solution. EBC's social banking initiative promotes financial inclusion for start-up entrepreneurs, non-profit organizations and social entrepreneurs, offering them access to financial products, financial advice and ongoing mentoring tailored to their needs.

In the last eight years, since it has been implementing the social banking program, Erste Bank Croatia has financially supported more than 700 clients with EUR 17.3 million , and more than 20 thousand participants have gone through these educational programs.

In 2023, EBC provided EUR 2.6 million to support startups entrepreneurs, a special group of clients, self-employed persons, i.e., entrepreneurs who have opened their own business, trade or family farm within the last two years. This program encourages self-employment and the development of entrepreneurship, and in addition to financing, support is also provided in the design and implementation of a business idea through free online education on relevant entrepreneurial topics and consulting. Thus, in 2023, 262 business plans were made, over 8,000 users participated in the e-learning program, and a total of 1,360 hours of counselling were held.

In addition to the above, thanks to EBC's financial and non-financial support, over 90% of supported clients stated that they would not be able to start a business, that is, they would start it later or on a smaller scale. At the same time, support for start-up entrepreneurs also helped in retaining jobs, so over 90% of clients kept their jobs, and 43% of them managed to create new jobs. Over 85% of clients stated that they feel more optimistic, have more knowledge and experience, and have increased their business income.

In addition to support for start-up entrepreneurs, Erste Bank Croatia also implements a program to support and finance non-profit organizations and social entrepreneurs, which will be supported with EUR 2.7 million in 2023. Over 400 participants participated in various programs, and 2,500 hours of counselling were provided. Thanks to EBC's financial and non-financial support, over 90% of clients from this segment maintained the continuity of their existing activities, and 67% increased them even further. Over 90% stated that they can achieve their mission better or equally.

In 2023, Erste Bank Croatia, in cooperation with partners Solidarna Foundation, Social Prudence, Panda Communications and Erste Foundation, completed the first and started the second cycle of the ‘Leave a good mark’ programme. It is a programme that aims to improve financial resilience through the improvement of fundraising capacity. The idea was born from the long-term experience of inclusive banking that the bank implements with start-up entrepreneurs and non-profit organizations, support in transferring ideas ‘from theory to reality’ and understanding the administrative burden and the involvement of the non-profit sector in the race for EU funds. It consists of two parts - educational and mentoring, through which all participants are provided with individual support for the development of social business canvas, fundraising strategy, storytelling along with instructions for adapting digital channels as a prerequisite for the successful implementation of a fundraising campaign. A total of 22 associations passed the program. Through the support of fundraising campaigns, organizations have collected over EUR 50.000 for the implementation of their programs.

Financial literacy

School of Smart Finance

For more than 20 years, EBC has been working in Croatia to improve its processes, products and services, all in order to respond to the clients’ wishes and needs in the best possible way. Also, due to the fact that knowledge is a driver of the society and social changes, Erste Bank Croatia as a financial institution has a responsibility in the field of financial literacy development at every age.

School of Smart Finance (continued)

For this reason, in 2019 the Bank launched a financial literacy project called School of Smart Finance, which includes interactive financial literacy workshops, video education and online panels. The workshops are intended for all age groups, so in addition to the workshops intended for adults, the Bank holds workshops for primary and secondary school students and students. In addition to online workshops, the bank also organizes live workshops in its branches and in the premises of schools, interested companies and public institutions. So far, 780 workshops have been held, attended by over 13,700 participants. During 2023, around 120 workshops were held with 2,023 participants, with the Bank focusing on workshops intended for young people (primary and secondary schools and colleges), with 1,600 of participants in the last year.

Due to the importance of this program, especially in the segment of children and young people, the Bank plans to focus as much as possible on workshops intended for this age group in the future as well.

Other

In addition to the comprehensive project of the School of Smart Finance, it is worth mentioning some of the other initiatives of EBC and its employees in the field of increasing financial literacy.

This is especially emphasised on Savings Day, which is marked in the Bank by the arrival of kindergarten and elementary school children to the branch offices, where they have the opportunity to talk with cashiers, advisers and personal bankers and ask anything they want to know. EBC's savings mascot Medo Štedo is especially interesting to children and also plays a large role in promoting financial literacy.

Also, EBC has supported and participated in the traditional celebration of World and European Money Week for many years.

Employees of EBC are happy to respond to the invitations to participate in other workshops, lectures and events organised to increase financial literacy.

Social responsibility

Dialogue with the local community

EBC endeavours to nurture a two-way communication with the local community and be as transparent as possible.

This is also fostered through partnerships with numerous associations, faculties, exhibitions and presentations at fairs, conferences and conventions throughout Croatia.
In 2023, the following was successfully implemented:

- participation in the Career Day organized by the Faculty of Science in Zagreb (exhibition booth, presentation to students, providing information about opportunities for student placement and jobs)
- participation in EduFest, festival of studying and student life (exhibition booth, presentation to students, providing information about opportunities for student placement and jobs)
- participation in RIT's Career Days (exhibition booth, presentation to students, providing information about opportunities for student placement and jobs)
- participation in Career Days organized by the Zagreb School of Economics and Management (exhibition booth, presentation to students, providing information about opportunities for student placement and jobs)
- cooperation with the Croatian Student Association – sponsoring the DriveIN Cinema project
- cooperation with the Faculty of Science in Zagreb – donation for the Maths Day and Night event
- cooperation with the Faculty of Science in Zagreb – sponsoring students at the STEM Games event

During 2023, 28 students completed their unpaid work placements at Erste Bank Croatia, which the students carry out to fulfil their university course requirements or gain basic knowledge of the business area that interests them.

In 2023, EBC relaunched the 6-week paid work placements "Work placement during university" that take place in the summer, which included three categories: BIZLab for students of economics, MATHLab for students of science and maths, and DIGILab for students of technical and computer sciences, in Zagreb, Rijeka and Bjelovar.

Dialogue with the local community (continued)

Students have the opportunity to learn about the bank's business and work on current projects, work with a mentor and share knowledge, attend workshops aimed at developing personal skills and financial literacy, and participate in group projects with other students competing for rewards. Students are financial compensated for the entire duration of their work placement.

In 2023, 5 students completed the BIZLab, 7 students completed the MATHLab, and 4 students completed the DIGILab.

With its student programmes, EBC joined the Youth Initiative back in 2018. The Youth Initiative was launched by the Croatian Employers' Association and the European Bank for Reconstruction and Development with the aim of helping young people enter the labour market, and EBC wants to contribute to increasing young people's opportunities for acquiring good first work experiences and for potential further employment.

Employee initiatives

At the end of 2023, an internal second-hand flea market was organized. It is an event where employees can, with a donation to the bidder or mutual barter, choose selected and worn clothes that are sold (and bought) by bank employees. The goal is to promote the reuse of well-preserved used clothing, encourage the circular economy and reduce the carbon footprint. It is planned to continue with this practice during the next year.

Scholarships

As in previous years, in 2023 students were able to apply for the "Best of South East" scholarship programme, launched by Steiermärkische Bank and Sparkassen AG (Sparkasse Bank) in cooperation with the University of Graz. It is aimed at graduates and students with very good grades and pronounced characteristics like dedication, developed communication skills as well as analytical and practical economic thinking. Students must speak the German language to be eligible for the scholarship. Due to the demanding requirements, the number of applications to the programme is not high – in 2023, three applications were received, and one candidate successfully met the criteria and won the scholarship. The programme comprises of a one-year internship at Sparkasse Bank or another Styria-based company for graduates and one year of studying at the University of Graz for students.

In the fall of 2019, the ECB introduced the practice of providing scholarships for high school and university students with disabilities within the framework of hiring persons with disabilities within the quota. This practice was continued in the last, fourth consecutive school year (2022/2023) when 20 high school and university students received regular monthly scholarship. In addition to this, a cooperation agreement on the purchase of marketing materials has been concluded with a protective workshop which mostly hires persons with disabilities. In autumn 2023, contracts on scholarships for pupils and students with disabilities were signed with a total of 15 students for the school year 2023/2024.

Sponsorships and donations

Through its sponsorship and donation activities, EBC is involved and actively supports various initiatives and projects that contribute to the development and improvement of the society as a whole, both locally and throughout the Republic of Croatia. Aware of the needs of the community, as a socially responsible enterprise, EBC continued to support numerous cultural, scientific, health, educational, sports and humanitarian projects during 2023.
Nearly EUR 2.4 million was allocated through the sponsorship and donation programme in 2023, as the Bank supported more than 600 humanitarian, educational, sport and culture projects, institutions and clubs.
Through its sponsorships in 2023, the Bank supported the DA2 documentary film festival, Ulysses Theatre, Austrian Cultural Forum – the Music Biennale Zagreb Festival, the Youth Salon at the Croatian Association of Artists (HDLU), the Sanja Iveković exhibition and the Tom Gotovac exhibition at the Museum of Contemporary Art in Zagreb. The Bank also supported the International Small Stages Theatre Festival, the Ballet Ensemble of the Ivan pl. Zajc National Theatre in Rijeka, as well as the Rijeka Carnival, Špancirfest street festival, Croatian National Theatre Varaždin, Varaždin Baroque Evenings, BOK festival in Bjelovar, DOKUart documentary film festival, which, in addition to its regular programme, encourages children and young people from all over Croatia to create their own documentaries, and the Christmas Gala Musical in Bjelovar. The Samobor Carnival, Samobor Festival, International Children's Festival in Šibenik, and Hook & Cook food festival in Rovinj were also supported.

Sponsorships and donations (continued)

Erste Bank Croatia also supports numerous conferences held across Croatia; in 2023, these included: Future Green Business, Entrepreneur of the Year, Voice of Entrepreneurs Association conference, Challenge of Change conference by the association of pension funds management companies and pension insurance companies - UMFO, Science Week, Pride of Croatia project, Wandercon gaming conference in Osijek, Financial Literacy Week organised by the Scientific Society of Economists, Renewable Energy Sources – Days of the Sun conference, congress of the Croatian Road and Railway Association Via Vita in Rovinj, and the Meeting of Mayors 48 Hours conference.

EBC also supported a number of other cultural events which contribute to the promotion of local customs and culture, as well as tourism, such as the traditional Alka of Sinj, International Lace Festival in Pag, Lubenice Music Festival in Cres, Matulji Festival, Kastav Cultural Summer, and many other traditional events specific to a certain region or city in Croatia.

Through the creative platform Urbanka powered by Erste, various international exhibitions were supported, projects such as the Grafiti na gradele - international festival bringing together world-known graffiti artists, Crtani romani šou – comic book festival, Cinehill Film Festival in Gorski Kotar, Motovun and Zagreb, William Kentrige art exhibitions in the Kranjčar Gallery in Zagreb. Furthermore, the Bank supported the work of young artists, preparations of the contest and prizes for the 37th Youth Salon held at the Home of the Croatian Association of Artists in Zagreb, the Academy of Dramatic Art in Zagreb, the Frka Festival, and the 10th Zagreb Design Week.

The 19th consecutive competition for young artists – Erste Fragments – was held in 2023. More than 100 applications from young artists were received and works of art were purchased and exhibited in EBC's business premises and branch offices across Croatia. In addition, scholarships were awarded to the best young artists Erste Fragments exhibition was staged in autumn last year at the Lauba People and Art House.

When it comes to supporting the social community through donations and sponsorships, the Bank supported the Nazorova Children's Home and the SOS Children's Village for orphaned children. Donations were made to the Special Orthopaedics Hospital in Biograd na Moru, Zadar General Hospital, Croatian Association for Paediatric Surgery, "Hrvatska za djecu" foundation - to promote the children's welfare, their personal and property rights in different social, health and educational needs of children, and the project/lecture on health responsibility (or lack of it), organised by the "Hrvatska za djecu" foundation in partnership with the School of Public Health Andrija Štampar. Special Hospital Goljak, Psychiatric Hospital for Children and Youth Kukuljevićeva, and Marin Čilić Foundation for Children also received EBC's donations.

As part of a broader strategy that promotes, among other things, the integration, inclusiveness and fellowship of all individuals in society, EBC supported the activities of the Zagreb Pride organisation.

Knowledge is one of the drivers of creation, progress and growth. Therefore, through its donations and sponsorships the Bank aims to include as many initiatives, organisations and events that concern educational activities. For that purpose, EBC is also collaborating with various schools, for example, Students's Union at the University of Rijeka, Academy of Dramatic Art and the Academy of Fine Arts in Zagreb, Rijeka Faculty of Economics, Faculty of Electrical Engineering and Computing and Faculty of Science at the University of Zagreb, and the Centre for Student Support and Career Development at the Faculty of Organisation and Informatics Varaždin.

Additionally, EBC promotes the importance of sports projects and sponsorships that focus on the importance of promoting sports and especially promoting awareness of the importance of physical activity in children. Two major projects that are focused on this goal are the Erste Blue League and Erste Handball League which were merged into the children sports platform named Erste First League in 2020.

Erste Blue League is a project intended for Croatian primary school students from 1st to 6th grade, aiming to help children develop an athletic spirit and encourage them to do sports. Last year, 3,977 children participated in the 11th competitive season.

Sponsorships and donations (continued)

The 60 Minutes GO campaign included renowned athletes, coaches, teachers and institutions with the aim of contributing to and providing equal opportunities and conditions for doing the daily sixty minutes of physical activity for interested children. Qualifications included one new city - Varaždin, so the competitions were held in a total of ten cities (Rijeka, Zagreb, Osijek, Makarska, Zadar, Pula, Knin, Varaždin, Vukovar, and Čakovec, with the final taking place in Zagreb).
The Erste Handball League is a unique children's handball league intended for primary school students from 2nd to 7th grade. This league aims to show that everyone needs physical activity to grow up healthy and happy, while giving children the opportunity to participate in competitions, socialize and have fun. World-renowned handball players Ivano Balić and Petar Metličić and their handball club were involved in the organisation of the League. As role models, they additionally motivate children and clubs to take part in the competition. In the sixth season of the Erste Handball League, competitions were held in eleven cities (Rijeka, Rovinj, Split, Zadar, Šibenik, Dubrovnik, Labin, Kaštelir, Poreč, Umag, and Pula, while Split hosted the finals), and a total of 4,990 children participated.
Through sports sponsorships, EBC has been traditionally supporting the Croatian Table Tennis Association, the Erste Beach Volleyball Club Zagreb, Primorje Rijeka Water Polo Club, Croatian Football Club Rijeka, Croatian Olympic Committee, the traditional Fiumanka sailing regatta in Kvarner with more than 200 sail boats, Sports and Recreation Festival Rijeka Run, Davis Cup in Split, and Biograd Boat Show as the largest boat fair in Croatia. It also supports youth gymnastics and a number of other sport clubs in the region that promote different kind of sports and sporting activities among youths.
It is also worth nothing initiatives launched by different sectors of the Bank and employees themselves. Since 2013, the Bank has been running the HOPE donation fund, whose mission is to collect employee donations with the aim of helping orphaned children, living in children's homes across Croatia. Participation in this initiative, as well as the size of donations, is entirely voluntary and can consist of a one-time donation or regular monthly payments made through a open payment order. The initial idea was to collect small monthly donations from a larger number of employees in order to help children's homes to procure equipment and other necessities that children need.

There is also the AZIL initiative, a cashiers' solidarity fund, i.e., a special purpose voluntary fund for covering cashiers' shortages and financial damages suffered by clients as a result of cashiers' mistakes when working with clients. All employees may join the fund, regardless of their job position, but it benefits only the employees in positions that include working at the cash register, vault and cash centre. The simbolic membership fee for cashiers is collected from members' salaries, while other members that join the fund in solidarity donate any amount they want, which they specify in the membership application created specifically for this purpose.

Last year, Erste Bank Croatia also supported the work of *Kontakt Collection*, the art collection of Erste Group and Erste Foundation. It is a collection founded in 2004, which includes numerous works of art from various countries, with a focus on Eastern, Southeastern and Central Europe. As part of this cooperation, the Sanja Iveković exhibition at the Museum of Contemporary Art in Zagreb was also supported last year.

Humanitarian campaigns

Erste challenge

For the sixth consecutive year, in the campaign that lasted from January to December 2023, EBC Group employees in Croatia undertook to reach a mileage target by engaging in a sport or recreational activity with the aim of securing a charity donation. Last year, the challenge was set at 200,000 kilometers, and although the final amount of kilometers collected was a little short, a donation of three thousand euros was sent to the association Mali zmaj.

Corporate volunteering – "Pay It Forward"

Corporate volunteering is more than a one-off campaign at the Bank level and has been organised for the past 15 years. It is a process of volunteering and providing help by setting aside employees' time to help others. With the aim of further encouraging employees, for the fifth consecutive year all interested employees were offered the possibility to volunteer during working hours. They can use one working day per year for this purpose, as individuals or in a group.

Humanitarian campaigns (continued)

Corporate volunteering – “Pay It Forward” (continued)

Through various projects throughout the year, employees helped and worked together to do good. This included sharing knowledge they are experts in (professional knowledge, development of social and business skills, etc.), socialising with elderly or sick retirement home users, improving homes for children, caring for the poor and the homeless, cleaning the environment, planting trees and similar.

In 2023, employees volunteered in institutions, associations and various initiatives: Business Skills Academy, Be Well Association, Zagreb Archdiocese Caritas House for the Homeless, Small House in Petrinja, Inclusive Farm in Hrastovica, Trešnjevka Home for the Elderly in Zagreb and Home for the Elderly in Varaždin, Šubićevac Children's Home, Earth Day activities, Summer Factory of Knowledge, etc. A total of 80 days of volunteering was recorded.

Employees are informed about volunteering options via intranet or they find volunteering opportunities.on their own. Sometimes Human Resources provides assistance in organizing volunteering by suggesting a volunteering location and assisting with everything required to carry out volunteering.

Since 2015, EBC has been a signatory of the Charter Recognising Competences Acquired by Volunteering, and since 2019 the Bank has been a signatory of the Employee Volunteering Charter. The best acknowledgement of the efforts and engagement of Erste volunteers are the many thanks they received from various institutions and associations in 2023.

Happy Hour

Employees of the Bank, as well as other affiliated companies, regularly organise annual campaigns of selling cakes and other sweet or savoury products, which they made themselves, to raise funds that they donate to associations or individuals in difficult life circumstances. So at the end of 2023, the Happy Hour took place, which also celebrated its tenth birthday. The collected amount of donations was divided into several parts and donated to associations and individuals in need. Happy Hour also took place in Erste Card Club.

Environment

In the last few years, the subject of environmental protection has become increasingly important for the sustainable development and viability of companies and people. As climate change has started to affect almost every country on every continent and change the way people live and work, the battle for environmental protection has become a global preoccupation. The importance of these topics is reflected in numerous summits, agreements and initiatives of the world's leading powers which aim to find the best possible solutions through joint efforts.

By deciding to finance environmentally neutral companies and pursue "green" and sustainable projects, banks and other financial institutions have an indirect impact on the environment and its conservation. Additionally, in its internal processes, EBC strives to employ environmentally friendly solutions of the highest quality, thus, for example when renovating branches and when communicating with customers, the aim is to achieve the highest possible environmental standards. The immediate impact on the environment has been determined through energy consumption and paper consumption.

Managing environmental impacts

Erste Bank Croatia has an established Environmental Policy, which defines environmental objectives that aim to contribute to reducing energy and water consumption and minimising environmental pollution, thereby contributing to the community in which the bank operates. Some of the goals EBC is committed to are:

- Protection of natural resources through their responsible use, systematic increase of energy efficiency and compliance with all applicable legal regulations
- Use of recycled paper and continuous reduction of waste paper
- Introduction of a waste sorting system and promotion of responsible waste management among employees
- Reduction of harmful emissions through the selection and use of electricity from renewable energy sources

To achieve its goals, EBC has implemented an environmental management system that complies with the requirements of ISO 14001:2015. The Environmental Management System according to the ISO 14001 standard was extended (recertified) at the end of 2023 and integrated with the Energy Management System according to the ISO 50001 standard, which will allow more advanced monitoring of electricity consumption and its rational use in the coming years, which should ultimately result in certain savings.

The active involvement of our employees is crucial for achieving these goals. In this regard, EBC conducts training of all employees on rational energy and paper consumption, and proper waste separation, as well as systematic training on the ISO 14001:2015 standard, with all its elements and goals. Since early 2020, training on environmental protection and rational use of energy is mandatory for all new employees, and in 2023, 92% of new employees passed it.
As in the previous years, the yearly external audit was performed by a licenced certification company in 2023 to ascertain that the Environmental Management System functions in accordance with the international standard ISO 14001: 2015. The Bank has completed all necessary activities to extend the ISO 14001:2015 certificate for another year. Some of EBC's subsidiaries (Erste Card Club, Erste Leasing and Erste Bank A.D. Podgorica) did the same.

EBC has set Strategic Environmental Objectives for the period until the end of 2027. Compared to the reference year 2021, they are:

- Reduce electricity consumption by 3% (2021: 12.47 GWh; 192.63 kWh/m2)
- Reduce heat consumption by 3% (2021: 4.79 GWh/g; 74.02 kWh/m2)
- Reduce CO2 emission by 3% (2021: 1,916 tCo2/g; 29.61 kg CO2 e/m2)

Managing environmental impacts (continued)

Based on the Strategic Objectives, the Operational Objectives for 2024 were also defined.

- continue with continuous education on environmental protection and energy
- installation of at least 3 solar power plants and production of at least 200 thousand kWh of green energy from newly installed and existing solar power plants
- the number of electric vehicles over 10% and plug-in hybrid vehicles 18% of the total number of official vehicles (total approx. 29%)

Energy

Energy is needed for everyday life, both for individuals and the entire economy. In that process, energy needs to be transferred from the initial location to the end-user, which of course causes pollution. Monitoring electricity consumption allows for better management of this segment of sustainable business. Erste Bank Croatia has several initiatives in the area of electricity savings.

When designing branch offices and other business premises, the Bank takes into account all aspects of environmentally friendly and sustainable business, uses software and technical solutions to optimise energy consumption, regularly maintains equipment to increase its durability and reduce waste, uses energy-saving light bulbs and energy-saving LED panels for advertisements, etc.

EBC wants to encourage its clients to think about energy efficiency and, consequently, to act in that direction. Thus, the Bank has designed and offered several products for the purpose of financing energy efficiency, the so-called eco loans, both for citizens and companies, which encourage the use of ecological forms of energy, the use of renewable energy sources, energy efficiency, etc., thus further promoting the development of sustainability and energy efficiency in society.

As part of Erste Group, EBC is committed to providing financial services in the energy sector because it believes that electricity supply is a key element for economic and social development, especially when it comes to Central and Eastern Europe. At the same time, in this area there is a need for reasonable management of environmental and social impacts, and better management of environmental risks. This is precisely why guidelines have been set in Erste Group's corporate financing segment with the aim of implementing the principles of sustainability and regulating Erste Group's participation in this industry.

In 2023, the instalation of sun protection foils continued. Apart from providing much better working conditions for employees in summer, they also reduce the electricity consumption of air conditioning. Last year, foils were installed on glazed surfaces in total of four branch offices – Daruvar, Čazma, Pešćenica and Dubrava in Zagreb.

The Bank constantly controls and works to reduce energy consumption, and in order for this to be done as efficiently as possible, all employees and users of the premises need to be trained, which was carried out throughout the year. Employee training on the rational use of energy became mandatory for all new employees as of 2020. In addition to education, a number of technical savings measures were implemented, which resulted in a 10% reduction in thermal energy compared to the reference year and a 12% reduction in electricity consumption. The reduction in electricity consumption would probably be even greater, but factors that reduce CO2 emissions at the expense of increasing electricity consumption must be taken into account - the introduction of the use of electric and hybrid cars and the installation of charging stations, remodeling of branches that have more and more devices that work 24/7 for the purpose of better availability to clients and continuous replacement of heating devices that use fossil fuels with those that use electricity.

Significant progress in the use of renewable energy sources was made in June 2021, when photovoltaic cells were installed on the roof of the Erste office building in Zagreb. In 2023, three more solar power plants were installed, two in Bjelovar and one in Viškovo, and the production of electricity from these power plants should begin in 2024.

Emissions

In 2023, EBC continued to use 100% renewable electricity, which means that, in addition to maintaining low CO2 emission levels, EBC contributed to, i.e., participated in the implementation of national energy efficiency projects through the ZelEN fund.

Emissions (continued)

At the level of Erste Group, CO2 emissions are monitored in all countries that are part of the Group, calculated from data such as the consumption of various energy sources, the consumption of freon (exhaust gases from cooling systems), the mileage of official vehicles, etc. When talking about the goal set for the year 2023, in addition to taking continuous measures to reduce emissions, which is the primary goal, Erste Bank Croatia compensated its operational CO2 emissions in 2023 by purchasing "Gold Standard" CO2 certificates, which are recognized and regularly revised in accordance with external international standards, thus supporting the project of a multi-layered water filtration system.

Table 9: CO2 emission

	2021	2022	2023
tCO2e	1,916	1,563	1,586

Electric cars have been in use since 2021, and in order to supplement the network of EV-charging stations and thus make it easier for the users of these vehicles, EBC is continuously supplementing its own network of fast and slow charging stations in its administrative buildings in Zagreb, Rijeka and Bjelovar. Thus, during 2023, 24 charging stations were installed.

Waste separation and reduction of unselected municipal waste

It has been identified that paper consumption accounts for the largest proportion of waste generated by the Bank. For that reason, the Bank uses environmentally-friendly, recycled printing paper across all its operations in Croatia, and intends to continue doing so in the future too. In addition, due to environmental reasons, as well as ease of use, the Bank’s clients are encouraged to do business online as much as possible. For that reason, clients can submit applications for the Bank’s products digitally, and in the bank's branch offices General Terms and Conditions are available i on tablets instead of on paper. Posters in the branches have largely been replaced by digital displays wherever possible. Instead of the classic notices sent by mail to clients' homes, EBC strives to send emails to clients as much as possible, and individual campaigns for switching from paper monthly statements to electronic ones are often carried out. Also, centrally operated digital filing folders are used, thus saving paper.

The Bank constantly controls and works to reduce the consumption of photocopier paper across all its segments, and training courses have been organised for this purpose. Except for the year 2022, the consumption of photocopier paper is constantly in decline.

Table 10: Consumption of photocopier paper

	2021	2022	2023
Ream/FTE	10.77	13.45	9.44

In order to reduce the negative impact on the environment in the future and further reduce the amount of unseparated municipal waste, a couple of years ago the Bank replaced paper hand towels in sanitary facilities with linen towels. As part of this initiative, employee training was organised. By using linen towels, EBC reduced the amount of unseparated municipal waste by 70-90% every year compared to previous years when paper hand towels were used. The increased use of paper towels was recorded during the coronavirus pandemic (primarily for disinfecting work surfaces), but their supply and distribution was suspended in 2022 due to the mitigation and abolition of epidemiological measures.

In addition, in 2018 the Bank installed containers for separate disposal of waste in all office buildings and branch offices across Croatia, establishing waste disposal procedures and organizing training for employees on this subject. In addition to separate disposal of paper, plastic, metal and glass, special containers for disposing of waste batteries were set up in office buildings in Zagreb, Rijeka and Bjelovar. Considering that there are no data available at the level of the Republic of Croatia on the amount of individual types of disposed waste, only special categories of disposed waste are registered. Data shows that in 2023 the Bank disposed of: 17 tonnes of bulk waste and 38 tonnes of electronic waste.

Other activities

A few years ago, prompted by employees, the Bank launched the praiseworthy “Project for PET”, which continued being implemented last year as well. As part of the project, the Bank organized the collection of plastic packaging waste in Erste business centres in Zagreb and Bjelovar, which is carried out in cooperation with the Association for the Promotion of Inclusion. Bank employees collect plastic soda bottles, which the users of the association take to be recycled, and the funds raised thusly are used to co-finance their needs.

By organising the collection of plastic packaging, EBC helps the community in which it operates in two ways: aside from recycling large quantities of plastic bottles, which is in itself an environmentally beneficial act, the Bank supports the entrepreneurial activities of a socially disadvantaged group – people with intellectual disabilities who are otherwise hard to employ. Additionally, the Bank contributes to the reduction of waste PET water bottles across its entire network by introducing a device for the production of drinking water obtained from the water supply network by reverse osmosis. The drinking water available to employees in this way is not in plastic packaging. Additionally, by providing more glass cups in kitchenettes, the Banks aims to reduce the use of disposable plastic water cups, at least as far as its employees are concerned.

Last year, Erste employees participated in the afforestation project organized by Croatian Forests - Plant WOOD FIRST in spring. Volunteers planted on Sljeme. Joint plantings like this are not only actions of reforestation, they are also actions of education and information and encouragement of care for nature.

Additionally, in the office buildings in Zagreb, Rijeka and Bjelovar, Erste Bank Croatia organised an ecological and charity project of collecting plastic caps from PET bottles for the purpose of raising funds for the Association of Leukaemia and Lymphoma Patients of the Republic of Croatia. This type of campaign is carried out by Erste Card Club.

When designing branch offices in accordance with the new service model concept which, in addition to the mode of operation also includes EBC's visual identity, green walls made of living plants are standardly installed, which have proved to contribute significantly to creating a pleasant work environment for our employees and their coexistence with nature. In addition to the administrative building in Zagreb, so far green walls have been installed in office branches in all parts of Croatia. In addition, indoor plants contribute to a natural increase of humidity in heated spaces during winter, thus reducing the need to use energy for artificial humidification.

The Bank is also a member of the non-governmental organisation Croatia Green Building Council and actively participates in discussions and projects concerning green construction projects, discussions on new trends in this field, etc.

Suppliers

Suppliers' responsibility

Erste Group sees its suppliers as partners in developing the sustainability of its operations. When selecting suppliers, Erste Group takes into account sustainability and corporate social responsibility, and chooses companies that do business in line with international standards that include social and environmental impacts.

Erste Group Procurement (EGP) is Erste Group's company specialised in procurement. Its main objective is to ensure a transparent and fair procurement and supply and such contracts. Meeting the needs of Erste Group for national and foreign goods and services, delivered in time and in accordance with quality requirements, under the best possible conditions, is the key element.

The suppliers of Erste Group are required to meet the stipulated standards in the fields of business ethics, environmental protection and human rights.

In the fulfilment of the contractual obligations, Erste Group expects the following from the suppliers of materials, equipment and services chosen as partners: respect of national and local laws and regulations, the fulfilment of all legal obligations regarding the health and safety of their employees and contractors, strict compliance with environmental regulations, compliance with and application of the fundamental principles of corporate social responsibility, protection of basic human and workers' rights, environmental protection, the promotion of health and safety, and decisive fight against corruption.

These principles are also expressed in the Supplier Code of Conduct, which is publicly available on the Erste Group Procurement website.

Erste Group Procurement carries the "CIPS Corporate Ethics Mark". This certificate is provided by the Chartered Institute of Procurement and Supply (CIPS). This certificate is issued to companies that have been dedicated to high standards of ethics and have proven that their employees are trained and do business in line with them. Employees are fully certified with respect to ethical conduct while 95% of suppliers, chosen by EGP, have undergone ethical audit in accordance with EG standards.

In the process of selecting suppliers at a strategic and operational level, sustainability is also taken into consideration. Along with an initial assessment, suppliers' operations are regularly reviewed, covering the most important or most vulnerable suppliers. The audit questionnaire refers to areas such as the existence of an environmental management system, participation in the Carbon Disclosure Project (CDS), the existence of a written environmental policy, methods of measuring CO_2 emissions, the existence of environmental targets, information on fines and penalties for violations of environmental regulations and description of the suppliers' supply chain.

In the case of the procurement of goods, the audit questionnaire is supplemented with questions on potentially hazardous chemicals, product recycling possibilities, end-of-life recovery, and *Energy Star* or similar standards.

Erste Group, including Erste Bank Croatia, is pleased to point out that no actual or potential negative environmental impacts have been detected in the supply chain of Erste Group and no contract with a supplier has been terminated as a result of significant actual or potential negative environmental impact.

When selecting suppliers, Erste Group also addresses social aspects, and the questionnaire covers questions such as child labour, elimination of all forms of forced labour, elimination of discrimination in the employment process, freedom of association and the right to collective negotiation, reasonable working hours and fair compensation, health care, work safety, job restructuring, salary, appropriate working conditions, and other important social criteria in the supply chain.

Erste Group also encourages social responsibility through the selection of suppliers and the type of goods and services it uses, including promotional marketing materials. Among other things, Erste Group often chooses products that have an ecological certificate or are the final product of a socially responsible project involving marginalised groups of the society.

GRI Content Index

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Reference to Annual Report 2023	Comment/Reason for ommission
GRI 102 General Disclosures 2016					
1. Organisational profile					
GRI 102	General Disclosures	102-1	Name of the organisation	4	Erste&Steiermärkische Bank d.d.
GRI 102	General Disclosures	102-2	Activities, brand, products, and services	91	Annual report: General information
GRI 102	General Disclosures	102-3	Location of headquarters	91	Rijeka, Jadranski trg 3a, Republic of Croatia
GRI 102	General Disclosures	102-4	Location of operations	91	General information
GRI 102	General Disclosures	102-5	Ownership	91	General information
GRI 102	General Disclosures	102-6	Markets served	91	General information
GRI 102	General Disclosures	102-8	Information on employees	42	Non-financial report: Employees
GRI 102	General Disclosures	102-9	Suppliers	65	Non-financial report: Suppliers
GRI 102	General Disclosures	102-10	Changes in the supply chain	65	No significant changes
GRI 102	General Disclosures	102-11	Precautionary principles	30	Non-financial report: Code of Conduct of the ESB Group; Statement of Purpose
GRI 102	General Disclosures	102-12	External initiatives	34, 61	Non-financial report: Customers, Environment
GRI 102	General Disclosures	102-13	Membership of associations	n.a.	Croatian Banking Association, Croatian Chamber of Economy
2. Strategy					
GRI 102	General Disclosures	102-14	Report of the Chairman of the Management Board	6	Report of the Chairman of the Management Board
GRI 102	General Disclosures	102-15	Key impacts, risks and opportunities	33	Non-financial report: Materiality analysis
3. Ethics and integrity					
GRI 102	General Disclosures	102-16	Values, principles, standards, and norms of behaviour	42	Non-financial report: Employees
4. Governance					
GRI 102	General Disclosures	102-18	Governance structure	71	General information: Supervisory Board, Management Board
5. Stakeholders					
GRI 102	General Disclosures	102-40	List of stakeholders	33	Non-financiral report: Materiality analysis
GRI 102	General Disclosures	102-41	Collective bargaining agreements	42	Non-financial report: Employees
GRI 102	General Disclosures	102-42	Identifying stakeholders	33	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-43	Approach to stakeholder engagement	33 at seq.	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-44	Key topics and concerns	33	Non-financial report: Materiality analysis
6. Reporting practice					
GRI 102	General Disclosures	102-46	Defining report content	30	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-47	List of material topics	33	Non-financial report: Materiality analysis
GRI 102	General Disclosures	102-49	Changes in reporting	33	No changes were made.
GRI 102	General Disclosures	102-50	Reporting period	4	From 1.1.2023. to 31.12.2023.
GRI 102	General Disclosures	102-51	Date of most recent report	n.a.	Annual report for the year ending 31.12.2022.
GRI 102	General Disclosures	102-52	Reporting cycle	4	Annual
GRI 102	General Disclosures	102-54	Claims of reporting in accordance with GRI standards	30	EBC's non-financial report was prepared in accordance with the requirements of the Global Reporting Initiative (GRI standard: core option)
GRI 102	General Disclosures	102-55	GRI content index	66	Non-financial report

GRI Content Index (continued)

GRI Standard Number	GRI Standard Title	Disclosure Number	Disclosure Title	Reference to Annual Report 2023	Comment/Reason for ommission
GRI 103 Management Approach 2016					
GRI 103	Management Approach	103-1	Explanation of the material topics	31	Non-financial report: Materiality analysis
Material and additional topics					
Material topic: Anti-corruption (GRI 205 Anti-corruption 2016)					
GRI 205	Anti-corruption	205-3	Confirmed incidents of corruption	34	Non-financial report: Anti-corruption There were no confirmed incidents of corruption in 2023
Material topic: Emissions (GRI 305 Emissions 2016)					
GRI 305	Emissions	305-5	Reduction of emissions	62, 52	Non-financial report: Emissions
Material topic: Responsible criteria in the supply chain (GRI 308 Negative environmental impacts in the supply chain and actions taken 2016)					
GRI 308	Negative impact on the environment by the suppliers	308-2	Negative impact on the environment by the suppliers	65	Non-financial report: Suppliers
Material topic: Health and work-life balance (GRI 401 Employment 2016)					
GRI 401	Employees	401-1	New employees	52	Non-financial report: Employees New employees: 205; Fluctuaction: 322
GRI 401	Employees	401-3	Parental leave	53	Non-financial report: Employees
Material topic: Health and work-life balance (GRI 403 Occupational health and safety 2018)					
GRI 403	Occupational health and safety	403-1	Occupational health and safety management system	53, 54	Non-financial report: Employees
GRI 403	Occupational health and safety	403-3	Occupational health services	53, 54	Non-financial report: Employees
GRI 403	Occupational health and safety	403-5	Prevention and mitigation of occupational	53, 54	Non-financial report: Employees
GRI 403	Occupational health and safety	403-7	Worker training on occupational health and safety impacts directly linked by business relationships	53, 54	Non-financial report: Employees
Material topic: Training and education (GRI 404 Training and education 2016)					
GRI 404	Training and education	404-1	Number of hours of training	49	Non-financial report: Emloyees
Material topic: Diversity and equality (GRI 405 Diverity and Equal Opportunity 2016)					
GRI 405	Diversity of managerial bodies and employees	405-1	Structure of managerial bodies and employees	43	Non-financial report: Employees
Material topic: Diversity and equality (GRI 406 Non-discrimination 2016)					
GRI 406	Anti-discrimination	406-1	Total number of incidents of discrimination	n.a.	Non-financial report: Employees There were no incidents recorded during 2023.
Material topic: Customer satisfaction					
Information on customer satisfaction				39, 40	Non-financial report: Clients
Material topic: Financial literacy					
Information on activities implemented in the area of raising financial literacy				55-60	Non-financial report: Society

Corporate Governance Statement

Corporate Governance Statement

The Bank pays special attention to corporate governance as the most significant determinant of its operations, which gives an impetus to the Management Board, the managers and the Supervisory Board in achieving interests and protecting both its shareholders and the Bank as a whole.

In order to establish high standards and achieve good rate governance, transparency in operations as the basis for the protection of shareholders, investors and other holders of interest, as well as to take care of employees and to support sustainable development and environment protection, the Bank applies Corporate Governance Principles (hereinafter: the Principles) to its business, adopted by the Management Board and the Supervisory Board of the Bank. The Principles are based on positive regulations of the Republic of Croatia and they ensure strategic governance of the Bank, efficient supervision over management and responsibilities of the Management Board and the Supervisory Board towards the Bank, its employees, clients and other interested parties; the Principles are published on the Bank's official website.

In its operations the Bank particularly complies with the following corporate governance principles:

- Transparency in operations;
- Protection of shareholders' rights;
- Clearly defined authorizations and responsibilities of the Bank’s bodies;
- Cooperation between the Management Board and the Supervisory Board, transparent relationships among all the Bank's bodies, employees, shareholders, Bank's clients and the public as a whole;
- Efficient internal control system.

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

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

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

In subsidiaries of the Bank in which is necessary due to the activities performed by the company, size, importance and regulatory framework, the compliance function, risk control function and internal audit division is also established.

The main features of the Bank’s and subsidiaries’ internal control system are reflected in independent bearers of control functions responsible for the identification, assessment and risk management, including Risk control and Compliance function, while Internal Audit Division overseas the overall operations of the Bank and the Group to assess the adequacy of the established system of internal controls.

Corporate Governance Statement (continued)

Code of Conduct of the Bank regulates the basic rules of business conduct of employees of the Bank in order to preserve and further expand the reputation of the banking sector and the Bank in society by promoting the idea of professionalism, responsibility and transparency of business activities.

Furthermore, the Bank has adopted Diversity policy in the year 2017. In accordance with Group principles, this policy outlines framework and guidelines and provides general principles and direction on integrating diversity management into corporate culture and business

The main risk regarding the financial reporting relates to errors or deliberate actions (frauds) that lead to a distortion of the Bank's true and fair view of the Bank's financial position and performance. This is the case whenever the data provided in the financial statements are essentially inconsistent or inaccurate and may individually or in aggregate influence the decision making by the users of the financial statements. Such a decision may incur serious damage, such as financial loss, the imposition of sanctions by the banking supervisor or reputational harm.

Complex requirements for the recognition and measurement of financial instruments, in particular fair value estimates for which reliable market values are not available, estimates for the recognition of value adjustments and provisions, as well as the difficult business environment, present a risk of significant financial reporting errors.

The Bank's share capital, fully subscribed, amounts to EUR 237,778,450.00 and is divided into 16,984,175 ordinary shares issued in dematerialized form, registered with the Central Depositary and Clearing Company under »RIBA-R-A« mark.

The nominal value of each share amounts to EUR 14.00 and entitles the holder to one vote at the Bank's General Meeting.

In order to improve the Bank’s coordination and simplify the shareholder structure, indirect shareholders of the Bank, companies Erste Group Bank AG and Steiermärkische Bank und Sparkassen AG have decided to become direct shareholders, by taking over the Bank's shares from the company ESB Holding GmbH in the same percentage in which they had shares in the capital of stated company.

In accordance with the aforementioned, until December 30, 2015, all shares of the Bank held the company ESB Holding GmbH, and as of December 30, 2015, all shares of the Bank hold companies Erste Group Bank AG (59.02%) and Steiermärkische Bank und Sparkassen AG (40.98%).

General Meeting decides on all matters as required by relevant regulations and the Articles of Association of the Bank. General Meeting shall be called by the Management Board or by the Supervisory Board not less than once a year and when the interests of the Bank require it. The Bank's General Meeting decides on amendments to the Articles of Association by the majority of votes representing at least three quarters of the equity capital represented at the General Meeting.

On May 26, 2023 the Bank held its regular General Meeting at which a Decision on Profit Distribution for the year 2022 was made. Net profit for year 2022 amounts HRK 977,280,291.22 and amount of HRK 389,288,152.72 (EUR 51,667,416.91) was distributed in the retained earnings, while the amount of HRK 587,992,138.50 (78,039,967.95 EUR) was ditributed as the dividend to the Bank's shareholders.

The dividend is determined in amount of 34.62 % of the nominal share value, which makes HRK 34.62 per share.

The payment of dividend to the shareholders Erste Group Bank AG and Steiermärkische Bank und Sparkassen AG was effectuated as of May 29, 2023.

Corporate Governance Statement (continued)

In addition, the decisions on granting discharge to the Management Board and Supervisory Board members were made.

Besides regular General Meeting in 2023, the Bank held two extraordinary General Meetings as well.

At extraordinary General Meeting held on April 3, 2023, Decision on the amendments of the Suitability Policy, Decision on suitability assessment of the members for the Supervisory Board for 2022, Decision on suitability assessment of the Candidae for Supervisory Board Member, Decision on election of the new Supervisory Board member and Decision on determination of the remuneration for the new Supervisory Board member, Ms Nina Begičević Ređep were made.

At extraordinary General Meeting held on July 4, 2023 Decision on the adjustment of the share capital of the Bank and Decision on Amendments of the Articles of Association of the Bankwere made. The adjustment of the share capital was made due to introduction of euro as official currency of Republic of Croatia. After the adoption of the Decision on the adjustment of the share capital, the share capital of the Bank amounts EUR 237,778,450,00. Due to the adjustment of the Bank's share capital, amendments to the Bank's Articles of Assotiation were also made.

The members of the Management Board represent the Bank and operate the Bank’s business on its own responsibility according to the Companies Act, the Credit Institutions Act and internal acts of the Bank. Management Board of the Bankhas 5 (five) members. One member of the Management Board is appointed as the president of the Board. The Management Board conducts its activities and adopts its decisions and resolutions at the Meetings. The organization, operation and decision making of the Management Board are regulated by the Rules of Procedure of the Management Board.

Members of the Management Board are:
_ Christoph Schoefboeck, President of the Management Board,
_ Martin Hornig, Member of the Management Board,
_ Zdenko Matak, Member of the Management Board,
_ Krešimir Barić, Member of the Management Board
_ Hannes Frotzbacher, Member of the Management Board.

The Supervisory Board shall supervise the management of the Bank. The Supervisory Board has seven (7) members. The members of the Supervisory Board are elected by the General Meeting.

Members of the Supervisory Board are:
_ Willibald Cernko, President of the Supervisory Board,
_ Georg Bucher, Deputy President of the Supervisory Board,
_ Ingo Bleier, Member of the Supervisory Board,
_ Judit Ágnes Havasi, Member of the Supervisory Board,
_ Walburga Seidl, Member of the Supervisory Board,
_ Nikolai Leo de Arnoldi, Member of the Supervisory Board until March 1, 2023,
_ Nina Begičević Ređep, Member of the Supervisory Board as of September 28, 2023
_ Roland Klimesch, Member of the Supervisory Board.

Corporate Governance Statement (continued)

The Supervisory Board conducts its activities at the Meetings. Summoning and holding meetings and process of making decisions and authorizations are prescribed by the Rules of procedure of the Supervisory Board. Supervisory Board has four (4) committees as follows: Audit Committee, Remuneration Committee, Nomination Committee and Risk Committee which are established with the aim of making competent and independent judgements on all issues placed in their jurisdiction by the Bank's internal acts and the relevant regulations. Committee members are appointed from the members of the Supervisory Board.

Audit Committee:
_ Georg Bucher, President
_ Judit Ágnes Havasi, Member
_ Roland Klimesch, Member

Remuneration Committee:
_ Judit Ágnes Havasi, President
_ Willibald Cernko, Member
_ Georg Bucher, Member

Nomination Committee:
_ Judit Ágnes Havasi, President
_ Willibald Cernko, Member
_ Georg Bucher, Member
_ Roland Klimesch, Member
_ Walburga Seidl, Member

Risk Committee:
_ Nina BegičevićReđep, President
_ Walburga Seidl, Member
_ Willibald Cernko, Member

Financial Statements for the year ended 31 December 2023

Erste&Steiermärkische Bank d.d.

Responsibility for the Financial Statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that separate and consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by International Accounting Standards Board (IASB) and adopted in the EU, which give a true and fair view of the financial position, results of operations and cash flow of Erste&Steiermärkische Bank d.d. together with its subsidiaries and associates (the Group) for that period as well as of Erste&Steiermärkische Bank d.d. (the Bank), separately.

In preparing those financial statements, the responsibilities of the Management Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis, unless it is inappropriate to presume that the Group and the Bank will continue in business.

The Management Board is responsible for keeping proper accounting records, which discloses with reasonable accuracy at any time the financial position of the Group and the Bank and must also ensure that the financial statements comply with the Croatian Accounting Law. The Management Board is also responsible for safeguarding the assets of the Group and the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Moreover, in accordance with the Accounting Law, the Management Board is obliged to prepare an Annual Report comprising the financial statements, the Management Report and the Corporate Governance Statement. The Management Report and the Corporate Governance Statement were prepared in line with the requirements of Articles 21, 22 and 24 of the Accounting Law. Also, the Management Board is responsible for the submission of its Annual report, which includes annual separate and consolidated financial statements, to the Supervisory Board for acceptance. If the Supervisory Board approves the Annual report it is deemed confirmed by the Management Board and Supervisory Board.
In accordance with Commission Delegated Regulation (EU) 2018/815 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 the single electronic reporting format ("ESEF Regulation"), the Management Board is obliged to prepare and publish separate and consolidated Annual Report in XHTML format and to mark the annual financial statements prepared in accordance with IFRS in XHTML format using XBRL codes to meet Article 462 requirements of the Capital Market Act.

After making enquiries, the Management Board has a reasonable expectation that the Group and the Bank have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the financial statements.

Christoph Schoefboeck
President

Krešimir Barić
Member

Martin Hornig
Member

Zdenko Matak
Member

Hannes Frotzbacher
Member

Erste&Steiermärkische Bank d.d.
Jadranski trg 3a
51 000 Rijeka
Republic of Croatia

18 March 2024

Independent Auditor's Report

To the Shareholders of Erste&Steiermärkische Bank 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 Erste&Steiermärkische Bank d.d. (the "Bank") and its subsidiaries (together - the "Group") as at 31 December 2023, 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 International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 18 March 2024.

What we have audited

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

- the separate and consolidated statements of profit or loss for the year ended 31 December 2023;
- the separate and consolidated statements of other comprehensive income for the year then ended;
- the separate and consolidated statements of financial position as at 31 December 2023;
- 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, comprising material accounting policy information 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

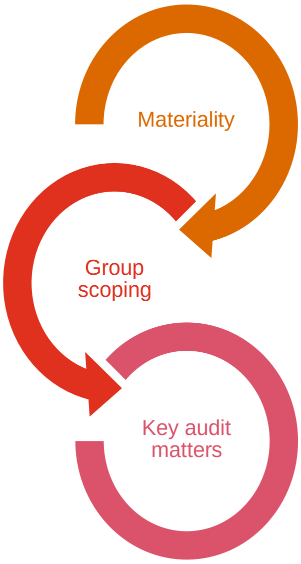
We are independent of the Bank and the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities 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 2023 to 31 December 2023, are disclosed in Note 51 to the separate and consolidated financial statements.

Our audit approach

Overview

	• Overall Bank materiality: EUR 13 million, which represents 5% of the pre-tax result for the period. • Overall Group materiality: EUR 15 million, which represents 5% of the pre-tax result for the period.
	• We conducted audit work at 4 reporting units in 2 countries. • Our audit scope addressed 100% of the Group's interest income and 100% of the Group's pre-tax result for the period.
	• Estimate of credit loss allowances for loans and advances to customers • Provisions for litigations 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: EUR 13 million The Group: EUR 15 million
How we determined it	The Bank and the Group: 5 % of pre-tax result for the period
Rationale for the materiality benchmark applied	We chose pre-tax result for the period as the benchmark because it is the benchmark against which the performance of the Bank and the Group is commonly measured by users and shareholders and it is a generally acceptable benchmark.

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 advances to customers Refer to section *Impairment of financial instruments under IFRS 9* in note *Financial instruments - Material accounting policy information*, section *Loans and advances to customers* in note 14 *Financial assets at amortized cost* and notes 28 - 34 to the separate and consolidated financial statements for detailed information on the expected credit loss (“ECL”) for loans and advances to customers. As at 31 December 2023, the Bank and Group had credit loss allowances for loans and advances to customers of EUR 247 million and EUR 283 million, 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. Loans, for which significant increase in credit risk since initial recognition was not identified, 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. For defaulted loans that are considered not to be individually significant, expected credit losses are collectively assessed as well. In these cases, the ECL is determined by using the key assumptions being the probability of an exposure falling into arrears and subsequently defaulting (“PD”), identification 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 determining the key assumptions including different future macroeconomic scenarios.	Our audit approach was as follows: • We updated our understanding of the ECL calculation methodology applied by the Bank and the Group, obtained the understanding of the model adjustments made as a result of the management’s assessment of the impact of geopolitical and macroeconomic uncertainties and assessed their compliance with the requirements of IFRS 9. We engaged our credit risk technical experts to assist us in this assessment. • We evaluated significant control activities in credit risk management and lending business processes and tested key controls, specifically 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 also assessed the independent model validation framework, validation results and overall model governance for compliance with IFRS 9. • 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 assessed the validation and monitoring reports to confirm the correctness of staging, ECL calculation, model performance and data quality checks. • We tested on a sample basis the correct stage allocation of the additional model adjustments due to the geopolitical and macroeconomic uncertainties, to assess its compliance with the relevant policies. • We verified the reconciliation of the output of the ECL calculation engine with the accounting records.

Key audit matter	How our audit addressed the key audit matter
The Bank and the Group were significantly influenced by macroeconomic developments and geopolitical tensions affecting economic environment. The Bank and the Group responded to the situation by applying stage overlays rules, i.e. transfer into Stage 2 based on pre-defined portfolio characteristics and updating the forward-looking information estimation model. 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).	• We tested on a sample basis the adequacy of individual credit loss allowances, assessing the forecasted scenarios and the estimated expected cash flows. • We assessed the disclosures related to credit loss allowances for loans and advances to customers in the separate and consolidated financial statements, including those that address the impact of geopolitical and macroeconomic uncertainties, with respect to their adequacy and compliance with the IFRS requirements.

Key audit matter	How our audit addressed the key audit matter
Provisions for litigations related to loans originally issued in or indexed to Swiss Franc As at 31 December 2022, the Bank and the Group recorded provisions for litigation cases related to loans originally issued in or indexed to Swiss Francs (“CHF”). Note 44 *Provisions*, section *Remaining classes of provisions*, to the separate and consolidated financial statements provides information related to these provisions for litigation claims. The provisions for litigation cases relate to loans that have not been converted to HRK and are still denominated in CHF, including requests for nullifying loan agreements in full and requests for nullifying specific clauses of loan agreements and also relating to default interest for the loans converted from CHF to EUR according to the Consumer Protection 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 IFRS requirements to estimating both timing and size of the outflows of economic resources required to settle the Bank’s and the Group’s obligations resulting from these litigation claims, given their inherent uncertainty.	Our audit approach was the following: • 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 Bank for loans denominated in CHF and the details of the provisions recognised for these cases. We reconciled this information to the information provided in the separate and consolidated 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 Bank’s litigation cases from the external law firms and we assessed the amount of provisions for reasonableness by comparing the basis for estimating the provisions with the external law firms’ opinion and available public information in order to challenge the key assumptions used by management. • We have tested the calculation of the provisions for litigation claims for mathematical accuracy.

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

Management is responsible for the other information. The other information comprises the Management Report, Corporate Governance Statement, Non–financial Report, Appendix 1 – Forms according to local requirements and Appendix 2 – Differences between financial statements according to IFRS and local requirements 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 Articles 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 Articles 21a and 24a 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 Articles 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 Articles 21a and 24a 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 International Financial Reporting Standards as adopted by the European Union 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 and 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 and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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 first appointed as auditors of the Bank and the Group on 12 June 2017. Our appointment has been renewed annually by shareholder resolution with the most recent reappointment on 4 July 2023, representing a total period of uninterrupted engagement appointment of 7 years.

Forms in accordance with the Decision

Based on the Decision on the structure and content of annual financial statements of credit institutions (Official Gazette 42/18, 122/20, 119/21 and 108/22), "Decision"), the Management Board of the Bank prepared the forms presented in the Appendix 1 – Forms according to local requirements (the "Forms"), which are entitled the Income statement and the Statement of other comprehensive income of the Bank and Group for the year ended 31 December 2023, Statements of financial position of the Bank and the Group as at 31 December 2023, the Statements of changes in equity of the Bank and the Group and the Cash flow statements of the Bank and the Group for the year then ended, together with information to reconcile the Forms to the Bank's and the Group's financial statements, disclosed in Appendix 2 – Differences between financial statements according to IFRS and local requirements. 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 and the Group's audited financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union as presented on pages 85 to 241, 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 549300A2F46GR0UOM390-2023-12-31-en, (hereinafter: the "financial statements") of the Bank and the Group for the year ended 31 December 2023 (the "Presentation of the Financial Statements").

Description of 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 Annual Report, have been prepared in the XHTML format;
- the data included in the 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 financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the 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 2023 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
18 March 2024

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.

Statement of Profit or Loss

in EUR million		GROUP		BANK	
	Notes	2022	2023	2022	2023
Net interest income	2	282	410	232	353
Interest income		289	462	247	413
Other similar income		25	51	10	28
Interest expense		(23)	(75)	(16)	(60)
Other similar expenses		(9)	(28)	(9)	(28)
Net fee and commission income	3	117	125	79	87
Fee and commission income		159	171	114	125
Fee and commission expenses		(42)	(46)	(35)	(38)
Dividend income	4	-	-	6	8
Net trading and fair value result	5	40	15	41	14
Gains/losses from financial instruments measured at fair value through profit or loss	6	(2)	1	(2)	1
Net result from equity method investments		1	1	-	-
Rental income from investment properties & other operating leases	7	8	7	-	-
Personnel expenses	8	(114)	(128)	(89)	(100)
Other administrative expenses	8	(93)	(105)	(73)	(86)
Depreciation and amortisation	8	(33)	(31)	(20)	(19)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	9	-	(21)	-	(21)
Impairment result from financial instruments	10	43	46	33	43
Other operating result	11	(44)	(22)	(35)	(14)
Other operating income		3	-	3	1
Other operating expenses		(47)	(22)	(38)	(15)
Pre-tax result for the period		**205**	**298**	**172**	**266**
Income tax	12	(49)	(53)	(42)	(47)
Net result for the period		**156**	**245**	**130**	**219**
Net result attributable to non-controlling interests		-	4	-	-
Net result attributable to owners of the parent		**156**	**241**	**-**	**-**

Earnings per share

For the purposes of calculating earnings per share, earnings are calculated as the net profit for the period attributable to ordinary shareholders after deducting preference dividends, if any. A reconciliation of the profit after tax attributable to ordinary shareholders is provided below.

in EUR million	GROUP	
	2022	2023
Net result for the period	156	245
Net result attributable to owners of the parent	156	241
Weighted average number of shares (for basic and diluted earnings per share)	16,984,175	16,984,175
Earnings per ordinary share – basic and diluted (in EUR)	**9.00**	**14.20**

Statement of Other Comprehensive Income

in EUR million	GROUP		BANK	
	2022	2023	2022	2023
Net result for the period	**156**	**245**	**130**	**219**
Other comprehensive income	**-**	**-**	**-**	**-**
Items that may be reclassified to profit or loss	**-**	**-**	**-**	**-**
Fair value reserve of debt instruments	(132)	57	(126)	54
Gain/(loss) during the period	(130)	41	(124)	38
Reclassification adjustments	-	21	-	21
Credit loss allowances	(2)	(5)	(2)	(5)
Income taxes relating to items that may be reclassified	24	(10)	23	(10)
Gain/(loss) during the period	24	(6)	23	(6)
Reclassification adjustments	-	(4)	-	(4)
Total	**(108)**	**47**	**(103)**	**44**
Total other comprehensive income / (loss)	**(108)**	**47**	**(103)**	**44**
Total comprehensive income	**48**	**292**	**27**	**263**
Total comprehensive income attributable to non-controlling interests	-	4	-	-
Total comprehensive income attributable to owners of the parent	**48**	**288**	**-**	**-**

Statement of Financial Position

in EUR million	Notes	GROUP 1 January 2022	GROUP 31 December 2022	GROUP 31 December 2023	BANK 1 January 2022	BANK 31 December 2022	BANK 31 December 2023
Assets							
Cash and cash balances	13	1,928	3,448	2,355	1,794	3,269	2,186
Financial assets – held for trading		19	26	23	19	26	23
Derivatives	17	9	26	23	9	26	23
Other financial assets held for trading		10	-	-	10	-	-
Non-trading financial assets at fair value through profit or loss		10	8	7	9	8	7
Equity instruments	18	1	3	1	1	3	1
Debt securities	18	9	5	6	8	5	6
Financial assets at fair value through other comprehensive income		1,586	1,217	1,093	1,520	1,167	1,039
Pledged as collateral	24	1	229	82	1	229	82
Equity instruments	19	1	1	-	1	1	-
Debt securities	20	1,585	1,216	1,093	1,519	1,166	1,039
Financial assets at amortised cost		7,874	9,430	10,357	7,262	8,743	9,620
Pledged as collateral	24	-	365	4	-	365	4
Debt securities	14	655	1,330	1,803	620	1,290	1,757
Loans and advances to banks	14	585	384	68	574	345	31
Loans and advances to customers	14	6,634	7,716	8,486	6,068	7,108	7,832
Finance lease receivables	41	338	400	483	-	-	-
Property and equipment	38	156	155	161	105	106	113
Investment properties	38	-	1	2	-	-	-
Intangible assets	39	44	23	19	18	15	13
Investments in subsidiaries	47	-	-	-	107	90	91
Investments in associates	48	8	9	9	5	5	5
Current tax assets	12	-	1	2	-	-	-
Deferred tax assets	12	27	54	41	18	45	33
Assets held for sale		45	-	-	-	-	-
Trade and other receivables	15	169	172	170	92	117	109
Other assets	40	44	36	30	34	23	18
Total assets		**12,248**	**14,980**	**14,752**	**10,983**	**13,614**	**13,257**
Liabilities and equity							
Financial liabilities – held for trading		7	23	21	7	23	21
Derivatives	17	7	23	21	7	23	21
Financial liabilities measured at amortised cost		10,559	13,266	12,841	9,607	12,212	11,678
Deposits from banks	16	867	1,489	784	430	1,016	308
Deposits from customers	16	9,061	11,175	11,382	8,618	10,673	10,781
Debt securities issued	16	532	484	537	532	484	537
Other financial liabilities	16	99	118	138	27	39	52
Lease liabilities	42	13	12	14	13	12	15
Provisions	44	54	90	75	51	77	71
Current tax liabilities	12	12	33	18	10	31	16
Deferred tax liabilities	12	-	-	-	-	-	-
Liabilities associated with assets held for sale		35	-	-	-	-	-
Other liabilities	43	85	95	108	59	66	77
Total liabilities		**10,765**	**13,519**	**13,077**	**9,747**	**12,421**	**11,878**
Subscribed capital		225	225	238	225	225	238
Capital reserves and share premium		250	250	238	250	250	238
Retained earnings		960	1,047	1,210	742	802	943
Other reserves		19	(89)	(42)	19	(84)	(40)
Equity attributable to owners of the parent		1,454	1,433	1,644	1,236	1,193	1,379
Equity attributable to non-controlling interests	47	29	28	31	-	-	-
Total equity	**46**	**1,483**	**1,461**	**1,675**	**1,236**	**1,193**	**1,379**
Total liabilities and equity		**12,248**	**14,980**	**14,752**	**10,983**	**13,614**	**13,257**

Statement of Changes in Equity

in EUR million	Subscribed capital	Capital reserves and share premium	Retained earnings	Fair value reserve	Currency translation reserve	Remea-surement of defined benefit plans	Income tax	Equity at-tributable to owners of the parent	Equity at-tributable to non-controlling interests	Total equity
GROUP										
As of 1 January 2023	**225**	**250**	**1,047**	**(109)**	**-**	**-**	**20**	**1,433**	**28**	**1,461**
Dividends paid	-	-	(78)	-	-	-	-	(78)	-	(78)
Capital increases/decreases	12	(12)	-	-	-	-	-	-	-	-
Reclassification from other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-
Other changes (Note: Scope of consolidation)	1	-	-	-	-	-	-	1	(1)	-
Total comprehensive income	**-**	**-**	**241**	**57**	**-**	**-**	**(10)**	**288**	**4**	**292**
Net result for the period	-	-	241	-	-	-	-	241	4	245
Other comprehensive income	-	-	-	57	-	-	(10)	47	-	47
Change from remeasurement of defined benefit plans	-	-	-	-	-	-	-	-	-	-
Change in fair value reserve	-	-	-	57	-	-	(10)	47	-	47
Change in currency translation reserve	-	-	-	-	-	-	-	-	-	-
As of 31 December 2023	**238**	**238**	**1,210**	**(52)**	**-**	**-**	**10**	**1,644**	**31**	**1,675**
As of 1 January 2022	**225**	**250**	**960**	**23**	**-**	**-**	**(4)**	**1,454**	**29**	**1,483**
Dividends paid	-	-	(70)	-	-	-	-	(70)	(1)	(71)
Reclassification from other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-
Other changes (Note: Scope of consolidation)	-	-	1	-	-	-	-	1	-	1
Total comprehensive income	**-**	**-**	**156**	**(132)**	**-**	**-**	**24**	**48**	**-**	**48**
Net result for the period	-	-	156	-	-	-	-	156	-	156
Other comprehensive income	-	-	-	(132)	-	-	24	(108)	-	(108)
Change from remeasurement of defined benefit plans	-	-	-	-	-	-	-	-	-	-
Change in fair value reserve	-	-	-	(132)	-	-	24	(108)	-	(108)
Change in currency translation reserve	-	-	-	-	-	-	-	-	-	-
As of 31 December 2022	**225**	**250**	**1,047**	**(109)**	**-**	**-**	**20**	**1,433**	**28**	**1,461**

Statement of Changes in Equity (continued)

in EUR million										BANK
	Subscribed capital	Capital reserves and share premium	Retained earnings	Fair value reserve	Currency translation reserve	Remea-surement of defined benefit plans	Income tax	Equity at-tributable to owners of the parent	Equity at-tributable to non-controlling interests	Total equity
As of 1 January 2023	**225**	**250**	**802**	**(103)**	**-**	**-**	**19**	**1,193**	**-**	**1,193**
Dividends paid	-	-	(78)	-	-	-	-	(78)	-	(78)
Capital increases/decreases	12	(12)	-	-	-	-	-	-	-	-
Reclassification from other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-
Other changes	1	-	-	-	-	-	-	1	-	1
Total comprehensive income	**-**	**-**	**219**	**54**	**-**	**-**	**(10)**	**263**	**-**	**263**
Net result for the period	-	-	219	-	-	-	-	219	-	219
Other comprehensive income	-	-	-	54	-	-	(10)	44	-	44
Change from remeasurement of defined benefit plans	-	-	-	-	-	-	-	-	-	-
Change in fair value reserve	-	-	-	54	-	-	(10)	44	-	44
As of 31 December 2023	**238**	**238**	**943**	**(49)**	**-**	**-**	**9**	**1,379**	**-**	**1,379**
						-				
As of 1 January 2022	**225**	**250**	**742**	**23**	**-**	**-**	**(4)**	**1,236**	**-**	**1,236**
Dividends paid	-	-	(70)	-	-	-	-	(70)	-	(70)
Reclassification from other comprehensive income to retained earnings	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**130**	**(126)**	**-**	**-**	**23**	**27**	**-**	**27**
Net result for the period	-	-	130	-	-	-	-	130	-	130
Other comprehensive income	-	-	-	(126)	-	-	23	(103)	-	(103)
Change from remeasurement of defined benefit plans	-	-	-	-	-	-	-	-	-	-
Change in fair value reserve	-	-	-	(126)	-	-	23	(103)	-	(103)
As of 31 December 2022	**225**	**250**	**802**	**(103)**	**-**	**-**	**19**	**1,193**	**-**	**1,193**

Statement of Cash Flows

in EUR million		GROUP		BANK	
	Notes	2022	2023	2022	2023
Net result for the period		**156**	**245**	**130**	**219**
Non-cash adjustments for items in net profit/loss for the year					
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	38, 39	49	31	37	19
Net allocation of credit loss allowances and other provisions	10, 11	(18)	(31)	(16)	(28)
Gains/(losses) from the sale of assets	11	-	-	(1)	-
Income tax expense/(income)	12	49	53	42	47
Other adjustments		(3)	1	1	1
Changes in assets and liabilities from operating activities after adjustment for non-cash components				-	
Financial assets – held for trading	17	9	-	9	-
Non-trading financial assets at fair value through profit or loss		-	-	-	-
Equity instruments	18	-	2	1	1
Debt securities	18	2	(1)	1	(1)
Financial assets at fair value through other comprehensive income: debt securities	20	239	184	229	184
Financial assets at amortised cost		-	-	-	-
Debt securities	14	(675)	(473)	(670)	(467)
Loans and advances to banks	14	201	316	229	314
Loans and advances to customers	14	(1,013)	(743)	(1,005)	(694)
Finance lease receivables	41	(43)	(83)	-	-
Derivatives	17	(1)	-	(1)	-
Other assets from operating activities	18	(26)	(61)	(17)	(54)
Financial liabilities measured at amortised cost		-	-	-	-
Deposits from banks	16	603	(705)	586	(709)
Deposits from customers	16	2,114	207	2,055	108
Debt securities issued	16	(48)	53	(48)	53
Other financial liabilities	16	19	21	13	13
Other liabilities from operating activities	43	(8)	(3)	(10)	9
Cash flow from operating activities		**1,606**	**(987)**	**1,565**	**(985)**
Proceeds from disposal		-		-	
Financial assets at fair value through other comprehensive income: equity instruments	19	-	-	-	-
Property and equipment, intangible assets and investment properties	38, 39	6	5	1	-
Acquisition of		-	-	-	-
Financial assets at fair value through other comprehensive income: equity instruments	19	-	-	-	-
Property and equipment, intangible assets and investment properties	38, 39	(31)	(32)	(18)	(16)
Merger of subsidiary (net of cash and cash equivalents acquired) (Note: Scope of consolidation)	47	5	-	-	-
Investments in associates		-	-	-	-
Disposal of subsidiaries	47	9	-	-	-
Investment in subsidiaries	47	(2)	-	-	-
Cash flow from investing activities		**(13)**	**(27)**	**(17)**	**(16)**
Dividends paid to equity holders of the parent	46	(70)	(78)	(70)	(78)
Dividends paid to non-controlling interests		-	-	-	-
Lease liabilities	42	(3)	(1)	(3)	(4)
Cash flow from financing activities		**(73)**	**(79)**	**(73)**	**(82)**
Cash and cash equivalents at beginning of period	**13**	**1,928**	**3,448**	**1,794**	**3,269**
Cash flow from operating activities		1,606	(987)	1,565	(985)
Cash flow from investing activities		(13)	(27)	(17)	(16)
Cash flow from financing activities		(73)	(79)	(73)	(82)
Cash and cash equivalents at end of period1)		**3,448**	**2,355**	**3,269**	**2,186**
Cash flows related to taxes, interest and dividends (included in cash flow from operating activities)	**13**	**227**	**319**	**207**	**285**
Payments for income tax	12	(32)	(66)	(26)	(60)
Interest received	2	295	481	252	418
Dividends received	4	-	-	6	8
Interest paid	2	(36)	(96)	(25)	(81)

Notes to the Financial Statements

A. GENERAL INFORMATION

HISTORY AND INCORPORATION

Erste&Steiermärkische Bank d.d. (the Bank) was established in 1954 and was entered into the Court Register as a joint stock company on 24 January 1990. The Bank's registered head office is at Jadranski trg 3a, Rijeka, the Republic of Croatia.
The Bank is a holding company for the Erste Bank Croatia Group (the Group) which has operations in the Republic of Croatia, Republic of Montenegro and in Republic of Slovenia until disposal of subsidiary in 2022.
Direct and ultimate parent company of Erste&Steiermärkische Bank d.d. is Erste Group Bank AG.

These financial statements comprise both the separate financial statements of the Bank and the consolidated financial statements of the Group.

PRINCIPAL ACTIVITIES OF THE BANK

The Bank is licensed to conduct commercial banking activities in the Republic of Croatia. The Bank's main operations are as follows:

_ accepting deposits from the clients and deposits placement,
_ granting loans, issuing guarantees and letters of credit to the individuals, companies, public and other clients,
_ treasury operations in the interbank market,
_ trust management and investment banking services,
_ performing domestic and international payments,
_ providing banking services through an extensive branch network in the Republic of Croatia.

SUPERVISORY BOARD

Willibald Cernko	President
Georg Bucher	Deputy President
Ingo Bleier	Member
Roland Klimesch	Member
Judit Ágnes Havasi	Member
Walburga Seidl	Member
Nikolai Leo de Arnoldi	Member until March 1, 2023
Nina Begičević Ređep	Member as of September 28, 2023

MANAGEMENT BOARD

The Bank is represented jointly by two members of the Management Board or by one member of the Management Board together with the procurator.

Christoph Schoefboeck	President
Zdenko Matak	Member
Martin Hornig	Member
Krešimir Barić	Member
Hannes Frotzbacher	Member

A. GENERAL INFORMATION (CONTINUED)

PROCURATORS:

The Bank at the moment does not have procurators.

The Bank's share capital, fully subscribed, amounts to EUR 237,778,450.00 and is divided into 16,984,175 ordinary shares. All shares of the Bank hold companies Erste Group Bank AG (10,023,326 shares or 59.02%) and Steiermärkische Bank und Sparkassen AG (6,960,849 shares or 40.98%).

DEFINITION OF THE CONSOLIDATED GROUP

The Bank is a parent company of the banking group (the Group) which includes the following subsidiaries and associates:

Name of subsidiary	Note	Ownership interest	Principal activity	Registered office
Erste Nekretnine d.o.o.	47	100%	Real estate business	Ivana Lučića 2A, Zagreb
Erste Bank AD Podgorica, Montenegro	47	100%	Credit institution	Arsenija Boljevića 2A, Podgorica, Montenegro
Erste Card Club d.o.o.	47	100%	Financial intermediation and services	Ulica Frana Folnegovića 6, Zagreb
Erste&Steiermärkische S-Leasing d.o.o.	47	50%	Financial and operating leasing	Zelinska 3, Zagreb
Izbor Nekretnina d.o.o.	47	100%	Real estate management and lease	Ivana Lučića 2A, Zagreb
Erste Group IT HR d.o.o.	47	100%	IT engineering	Jurja Haulika 19/A, Bjelovar
Name of associate				
Erste d.o.o.	48	45.86%	Management company for obligatory and voluntary pension fund	Ivana Lučića 2A, Zagreb

Additions and disposals

Acquisition and merger

During the last quarter of 2022, Erste Bank AD Podgorica, Montenegro acquired and merged S leasing d.o.o. Podgorica, Montenegro. Information is dislosed in note Scope of consolidation.

In July 2023, an additional 20% share was acquired by Erste Group IT HR d.o.o which makes a total of 100% ownership of Erste Group IT HR d.o.o.

Material accounting policy information

BASIS OF PREPARATION

The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).
In accordance with the applicable measurement models prescribed or permitted under IFRS, the consolidated financial statements have been prepared on a cost basis, except for financial assets measured at fair value through other comprehensive income and financial assets and liabilities measured at fair value through profit or loss.

The financial statements are prepared on an accrual basis of accounting, under the going concern assumption.

Except for regulatory restrictions on capital distributions stemming from the EU-wide capital requirements regulations applicable to all credit institutions based in the EU, the Group does not have any other significant restrictions on its ability to access or use the assets and settle the liabilities of the Group. Also, the owners of non-controlling interests in Group subsidiaries do not have rights that can restrict the Group’s ability to access or use the assets and settle the liabilities of the Group.

On 1 January 2023, the euro ("EUR") was introduced instead of the Croatian kuna ("HRK") and became the official monetary currency and legal tender in the Republic of Croatia. The introduction of the euro as the official currency in the Republic of Croatia represents a change in the functional currency.
On 1 January 2023, all items of assets, liabilities and equity were converted from HRK to EUR using a fixed conversion rate determined by the Croatian government (published fixed rate of HRK 7.53450 per EUR 1). The change in the functional currency is applied prospectively from the specified date.
Furthermore, the presentation currency of these financial statements has changed as of January 1, 2023, and the comparative periods have been converted to euro for the aforementioned reason. Since the financial statements of the previous period were presented in Croatian kuna, the change in the presentation currency of the comparative period in this year's financial statements represents a change in the Group's accounting policy. Regarding the change in accounting policy, the Group presents three statements of the financial position in this year's financial statements, as at 1 January 2022, 31 December 2022 and 31 December 2023.
Except as otherwise indicated, the amounts in the financial statements are stated in millions of euro (“EUR”).

The preparation of financial statements in compliance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported income, expenses and other comprehensive income for the reporting period. These estimates are based on the information available at the statement of financial position date and actual amounts may differ from those estimates.
The Bank maintains its books of accounts in accordance with the regulations of the statutory accounting requirements for banks in Croatia.
The accompanying financial statements are based on the accounting records of the Bank and its subsidiaries.

Accounting and measurement methods

Foreign currency translation

The financial statements are presented in euro, which is the presentation currency of the Group and functional currency of the Bank. The functional currency is the currency of the primary business environment in which an entity operates. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

i.Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded in euro at the functional currency exchange rate effective as of the date of the transaction.
Subsequently, monetary items denominated in foreign currencies are translated at the functional currency exchange rates as of the statement of financial position date. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into the functional currency using the exchange rate at the date when the fair value is measured, thus the exchange differences are part of the fair value gains or losses. Non-monetary assets and liabilities denominated in foreign currencies and measured at historical cost are translated using the exchange rates as of the dates of the initial transactions and they do not give rise to exchange differences.

Exchange differences arising on translation into functional currency, are recognised in the statement of profit or loss for the period, under the line item 'Net trading and fair value result' except for exchange differences arising on translation of financial assets denominated in foreign currencies and measured at fair value through other comprehensive income and translation of foreign operations as explained below.

For debt instruments that represent monetary items and are measured at fair value through other comprehensive income, foreign currency translation differences are recognized in the statement of profit or loss, if related to the amortised cost components of the instrument, and in other comprehensive income, if related to fair value components of the instrument.
For non-monetary items that are measured at fair value through other comprehensive income, exchange differences are recognised in other comprehensive income. Conversely, exchange differences are recognised in the statement of profit or loss if a non-monetary item is measured at fair value through profit or loss.

ii.Translation of the statements of Group companies

The assets and liabilities of foreign operations (foreign subsidiaries) are translated into euro, the Group's presentation currency, at the rate of exchange as of the statement of financial position date (closing rate). Their consolidated statement of profit or loss and consolidated statement of other comprehensive income are translated at the average exchange rate of the respective reporting period calculated on the basis of daily rates. Goodwill, intangible assets recognised on acquisition of foreign subsidiaries and fair value adjustments to the carrying amounts of assets and liabilities are treated as asset and liabilities of the foreign subsidiaries and are translated at the closing rate. Exchange differences arising on translation are recognised in other comprehensive income under the line item 'Currency translation reserve' of the statement of other comprehensive income. On disposal of a foreign subsidiary, the cumulative amount of translation differences recognised in other comprehensive income is recognised in the statement of profit or loss under the line item 'Other operating result'.

Material accounting judgements, assumptions and estimates

The consolidated financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. The estimates and underlying assumptions are regularly evaluated. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities.
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed in:

_Impairment of financial instruments (Chapter Financial instruments – Material accounting policy information, Chapter Risk management)
_Control of subsidiaries (Note 47 Investment in subsidiaries)
_Sundry provisions (Note 44 Provisions)

Application of amended and new IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning on or after 1 January 2023. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Group are listed below.

Effective standards and interpretations
The following amendments of standards have become mandatory for the financial year 2023, and have been endorsed by the EU:

IFRS 17: Insurance contracts
Amendments to IAS 1: Disclosure of Accounting Policies
Amendments to IAS 8: Definition of Accounting Estimates
Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12: International Tax Reform — Pillar Two Model Rules

Application of the above mentioned amendments in 2023 did not have a significant impact on the Group's financial statements. However, Amendments to IAS 1 resulted to a significant reduction in the disclosures of the accounting policies with focus on materi-al information.
At 31 December 2023 the Group applied the temporary exception to the requirements of IAS 12 under which a company does not recognise or disclose information about deferred tax assets and liabilities related to the proposed OECD/G20 BEPS Pillar Two model rules. Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions in which the Group operates. The legislation will be effective for the Group's financial year beginning 1 January 2024. The Group is in scope of the enacted or substantively enacted legislation and has performed an assessment of the Group's potential exposure to Pillar Two income taxes. This assessment is based on the most recent information available regarding the financial performance of the constituent entities in the Group. Based on the assessment in two of the jurisdictions in which the Group operates, the Pillar Two effective tax rates in Croatia is above 15%. However, in Montenegro, the Pillar Two effective tax rate is close to 15%. The Group does not expect a material exposure to Pillar Two income taxes in those jurisdictions.

Standards and interpretations not yet effective
The following standards, amendments and interpretations were issued by the IASB and endorsed by the EU but are not yet effective.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback. The amendments to IFRS 16 were issued on 22 September 2022 and become effective for annual periods beginning on or after 1 January 2024.

Application of amended and new IFRS/IAS (continued)

Amendments to IAS 1 Classification of liabilities as current or non-current. The amendments were originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022 and become effective for annual periods beginning on or after 1 January 2024.

The following standards, amendments and interpretations were issued by the IASB but are not yet effective. They have not yet been endorsed by the EU.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements. The amendments were issued on 25 May 2023 and become effective for annual periods beginning on or after 1 January 2024.

Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability. The amendments to IAS 21 were issued in August 2023 and become effective for annual periods beginning on or after 1 January 2025. The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.

Application of these amendments is not expected to have a significant impact on Erste Group’s financial statements.

PERFORMANCE / RETURN

1. Segment reporting

The Group segment reporting comprises four operating segments reflecting Group management structure.

Retail segment comprises the business with private individuals, micros and free professionals within the responsibility of account managers in the retail network. This business is operated by the local banks in cooperation with their subsidiaries such as leasing and asset management companies with a focus on simple products ranging from mortgage and consumer loans, investment products, current accounts, savings products to credit cards and cross selling products such as leasing, insurance and building society products.

Corporates segment comprises business done with corporate customers of different turnover size (small and medium-sized enterprises and Large Corporate customers) as well as commercial real estate and public sector business. Small and medium-sized enterprises (SME) are clients which are under the responsibility of the local corporate commercial center network, mainly consisting of companies with-in defined annual turnover thresholds. Large Corporates (LC) are clients/client groups with specific annual turnover thresholds (lying above SME thresholds) which are operating on domestic market but also on core markets/extended core markets of Erste Group. Commercial Real Estate (CRE) covers for example investors in real estate for the purpose of generating income from the rental of individual properties or portfolios of properties, developers of individual properties or portfolios of properties for the purpose of generating capital gains through sale. Public Sector consists of three sets of customers: public sector, public corporations and non-profit sector. In addition, the majority of municipalities are also segmented as Public Sector clients.

Asset Liability Management (ALM) and Local Corporate Center (LCC) segment includes all asset/liability management functions, local corporate center which comprise all non-core banking business activities such as internal service providers and reconciliation items to local entity results as well as free capital segment (defined as the difference of the total average IFRS equity and the average economical equity allocated to the segments).

Group Markets segment comprises trading and markets services as well as customer business with financial institutions. It includes all activities related to the trading books of Erste Group, including the execution of trade, market making and short-term liquidity management. In addition, it comprises business connected with servicing financial institutions as clients including custody, depository services, commercial business (loans, cash management, trade & export finance).

1. Segment reporting (continued)

	Retail		Corporates		Group Markets		ALM & LCC		GROUP	
in EUR million	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**
Net interest income	172	205	103	153	2	7	5	45	282	410
Net fee and commission income	73	76	39	43	6	6	(1)	-	117	125
Net trading and fair value result	16	7	13	3	12	5	(1)	-	40	15
Gains/losses from financial instruments at FVPL	-	-	(2)	1	-	-	-	-	(2)	1
Net result from equity method investments	1	1	-	-	-	-	-	-	1	1
Rental income from investment properties & other operating leases	3	2	5	5	-	-	-	-	8	7
General administrative expenses	(174)	(191)	(58)	(62)	(7)	(7)	(1)	(4)	(240)	(264)
Other gains/losses from derecognition of financial instruments not at FVPL	-	-	-	-	-	-	-	(21)	-	(21)
Impairment result from financial instruments	6	3	37	37	-	-	-	6	43	46
Other operating result	(1)	-	(1)	1	-	-	(42)	(23)	(44)	(22)
Pre-tax result for the period	**96**	**103**	**136**	**181**	**13**	**11**	**(40)**	**3**	**205**	**298**
Income tax	(22)	(18)	(33)	(32)	(3)	(2)	9	(1)	(49)	(53)
Net result for the period	**74**	**85**	**103**	**149**	**10**	**9**	**(31)**	**2**	**156**	**245**
Net result attributable to non-controlling interests	**-**	**-**	**-**	**4**	**-**	**-**	**-**	**-**	**-**	**4**
Net result attributable to owners of the parent	**74**	**85**	**103**	**145**	**10**	**9**	**(31)**	**2**	**156**	**241**
Operating income	265	291	158	205	20	18	3	45	446	559
Operating expenses	(174)	(191)	(58)	(62)	(7)	(7)	(1)	(4)	(240)	(264)
Operating result	**91**	**100**	**100**	**143**	**13**	**11**	**2**	**41**	**206**	**295**
Risk-weighted assets (credit risk, eop)	1,839	2,116	3,447	3,382	21	43	765	650	6,072	6,191
Average allocated capital	285	302	413	367	12	10	522	397	1,232	1,076
Cost/income ratio	66%	66%	37%	30%	35%	39%	41%	9%	54%	47%
Return on allocated capital	26%	28%	25%	41%	81%	90%	(6)%	1%	13%	23%
Total assets (eop)	3,813	4,380	4,909	5,173	91	107	6,167	5,092	14,980	14,752
Total liabilities excluding equity (eop)	7,020	6,786	3,559	3,881	322	616	2,618	1,794	13,519	13,077
Impairments	**6**	**3**	**36**	**37**	**-**	**(1)**	**(17)**	**7**	**25**	**46**
Net impairment loss on financial assets AC/FVOCI and finance lease receivables	11	9	58	45	-	(1)	1	7	70	60
Net impairment loss on commitments and guarantees given	(5)	(6)	(22)	(8)	-	-	-	-	(27)	(14)
Impairment of goodwill	-	-	-	-	-	-	(17)	-	(17)	-
Net impairment on other non-financial assets	-	-	-	-	-	-	(1)	-	(1)	-

1. Segment reporting (continued)

Measurement

The profit and loss statement of the segment report is based on the measures to the Group management board for the purpose of allocating resources to the segments and assessing their performance. Management reporting as well as the segment report for Group, is based on IFRS. Accounting standards and methods as well as measurements used in segment reporting are the same as for the consolidated statement of accounting.
Capital consumption per segment is regularly reviewed by the management of Group to assess the performance of the segments. The average allocated equity is determined by the credit risk, market risk, operational risk and business strategic risk. According to the regular internal reporting to the Group management board, total assets and total liabilities as well as risk weighted assets and allocated equity are disclosed per segment. For measuring and assessing the profitability of segments, the Group also uses the return on allocated equity defined as a net result for the period before minorities in relation to the average allocated equity of the respective segment. In addition, the cost/income ratio is calculated for each segment as operating expenses (general administrative expenses) in relation to operating income (total of net interest income, net fee and commission income, dividend income, net trading and fair value result, net result from equity method investments, rental income from investment properties and other lease).

Interest revenues are not reported separately from interest expenses for each reportable segment. Those measures are reported on the net basis within the position 'Net interest income' as interest revenues and interest expenses are neither included into the measure of segment profit or loss reviewed by the chief operating decision maker nor otherwise regularly provided to the chief operating decision maker. Chief operating decision maker relies solely on net interest income to assess the performance of the segments and make decisions about resources to be allocated to the segments. 'Net fee and commission income' and 'Other operating result' are reported on a net basis according to the regular reporting to the chief operating decision maker.

The Group doesn't have a single external customer whose revenues from transactions amount to 10% or more of the Group's revenues.

Return on asset ratio (ROA) in the Group was 1.7% on 31 December 2023 (2022: 1.1%) and in the Bank 1.7% (2022: 1.1%).

Return on equity ratio (ROE) in the Group was 15.8% on 31 December 2023 (2022: 10.8%) and in the Bank 17.2% (2022: 10.7%).

Additional information about geographical areas

The domicile of Group subsidiaries serves as the basis for additional information about geographical information about geographical areas where the Group operates. The majority of the Bank's and Group's operations and clients are located in the Republic of Croatia.

Measurement

	Hrvatska		Crna Gora		GROUP	
in EUR million	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**
Net interest income	257	380	25	30	282	410
Net fee and commission income	110	118	7	7	117	125
Net trading and fair value result	39	14	1	1	40	15
Gains/losses from financial instruments at FVPL	(2)	1	-	(0)	(2)	1
Net result from equity method investments	1	1	-	-	1	1
Rental income from investment properties & other operating leases	8	7	0	0	8	7
General administrative expenses	(221)	(242)	(19)	(22)	(240)	(264)
Other gains/losses from derecognition of financial instruments not at FVPL	-	(21)	-	-	-	(21)
Impairment result from financial instruments	42	44	1	2	43	46
Other operating result	(44)	(22)	(0)	0	(44)	(22)
Pre-tax result for the period	**192**	**280**	**13**	**18**	**205**	**298**
Income tax	(47)	(50)	(2)	(3)	(49)	(53)
Net result for the period	**144**	**229**	**12**	**16**	**156**	**245**
Net result attributable to non-controlling interests	**-**	**4**	**-**	**-**	**-**	**4**
Net result attributable to owners of the parent	**144**	**225**	**12**	**16**	**156**	**241**
Operating income	414	520	32	39	446	559
Operating expenses	(221)	(242)	(19)	(22)	(240)	(264)
Operating result	**193**	**278**	**13**	**17**	**206**	**295**
Risk-weighted assets (credit risk, eop)	5,563	5,624	509	567	6,072	6,191
Average allocated capital	1,167	1,008	65	68	1,232	1,076
Cost/income ratio	53%	47%	59%	57%	54%	47%
Return on allocated capital	12%	22%	18%	23%	13%	23%
Total assets (eop)	14,243	13,957	737	795	14,980	14,752
Total liabilities excluding equity (eop)	12,877	12,395	642	682	13,519	13,077
Impairments	**24**	**44**	**1**	**2**	**25**	**46**
Net impairment loss on financial assets AC/FVOCI and finance lease receivables	69	58	1	2	70	60
Net impairment loss on commitments and guarantees given	(27)	(14)	-	-	(27)	(14)
Impairment of goodwill	(17)	-	-	-	(17)	-
Net impairment on other non-financial assets	(1)	-	-	-	(1)	-

2. Net interest income

Net interest income is broken down into line items of interest income, other similar income, interest expenses and other similar expenses. The distinguishing factor is whether the EIR method is applied for recognition of interest income or expense in accordance with IFRS 9.

'Interest income' relates to interest revenue from financial assets measured at amortised cost and at fair value through other comprehensive income. It is calculated using the EIR method as discussed in chapter 'Financial instruments – Material accounting policy information', part 'Measurement methods for financial instruments'.

'Other similar income' captures interest-like sources of income resulting from non-derivative financial assets measured at fair value through profit or loss, held-for-trading derivatives, finance lease receivables and negative interest on financial liabilities.

'Interest expenses' relates to interest expense from financial liabilities measured at amortised cost calculated using effective interest rate as discussed in chapter 'Financial instruments - material accounting policy information', part 'Measurement methods for financial instruments' .

'Other similar expenses' capture interest-like sources of expense resulting from non-derivative financial liabilities measured at fair value through profit or loss, held-for-trading derivatives, negative interest on financial assets, lease liabilities, provisions recognised under IFRS 9 and IAS 37 (unwinding of the time value of the money effect due to passage of time) and net defined liabilities (net interest cost on severance payment, pension and jubilee obligations) under IAS 19.

As regards types of financial instruments, interest income and other similar income include interest income on loans and advances to banks and customers, on cash balances, on debt securities in all measurement categories of financial assets, on trade and other receivables and on finance lease receivables. Interest expenses and other similar expenses include interest paid on deposits from customers, deposits from banks, debt securities issued, interest paid on lease liabilities and other financial liabilities in all measurement categories of financial liabilities. Net interest income also includes interest on derivative financial instruments.

Interest income also includes modification gains and losses recognised on financial assets in Stage 1. Further, the unamortised balance of the origination fees/transaction costs upon derecognition of assets in Stage 1 and 2 considered in the effective interest rate is presented as interest income at the derecognition date.

2. Net interest income (continued)

in EUR million	GROUP 2022	GROUP 2023	BANK 2022	BANK 2023
Interest income	289	462	247	413
Financial assets at AC	271	444	232	397
Financial assets at FVOCI	18	18	15	16
Other similar income	25	51	10	28
Financial assets – held for trading	9	28	9	28
Other assets	15	23	-	-
Interest income from negative interest rates	1	-	1	-
Interest and other similar income	**314**	**513**	**257**	**441**
Interest expenses	(23)	(75)	(16)	(60)
Financial liabilities measured at amortised cost	(23)	(75)	(16)	(60)
Other similar expense	(9)	(28)	(9)	(28)
Financial liabilities – held for trading	(8)	(28)	(8)	(28)
Interest expense from negative interest rates	(1)	-	(1)	-
Interest and other similar expense	**(32)**	**(103)**	**(25)**	**(88)**
	-		-	
Net interest income	**282**	**410**	**232**	**353**

An amount of EUR 5 million for the Group and EUR 4 million for the Bank (2022: EUR 6 million for the Group and EUR 5 million for the Bank) relating to impaired financial assets is included in interest income

3. Net fee and commission income

Group applies the five-step revenue recognition model from IFRS 15 for fees and commissions recognition it generates by providing services to clients.
The exception are fees and commissions income that are an integral part of the effective interest rate on financial assets or financial liabilities and are subject to IFRS 9 requirements.
Income from fees and commissions having the character of non-interest income are recognised in the profit and loss upon the performance of the Bank's contractual obligation. Accordingly, fees generated by the provision of the service over a period of time are delimited and recognised in revenue during that same period of time. When Group acts as an agent, fees are shown on a net basis.

Type of service	Revenue recognition policies
Services such as commitment fees, premiums received for guarantees and other fees from lending business, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions. Payment services partly include fees for services satisfied over a period of time like periodic card fees.	Revenue is recognised over time as the services are provided.
Transaction services such as arranging the acquisition and sale of shares or other securities on behalf of customers or foreign exchange transactions, as well as commission income earned from services such as the sale of collective investments and insurance products. Payment services partly include transaction-based fees like withdrawal fees.	Revenue related to transactions is recognised at the point in time when the transaction takes place.

A contract with a customer that results in the recognition of a financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

3. Net fee and commission income (continued)

in EUR million	GROUP				BANK			
	2022		2023		2022		2023	
	Income	Expenses	Income	Expenses	Income	Expenses	Income	Expenses
Securities	2	-	4	-	2	-	4	-
Own issues	1	-	3	-	1	-	3	-
Transfer orders	1	-	1	-	1	-	1	-
Asset management	3	-	3	-	3	-	2	-
Custody	2	(1)	2	(1)	2	(1)	2	(1)
Payment services	133	(37)	141	(42)	94	(33)	101	(36)
Card business	76	(32)	80	(36)	40	(28)	43	(32)
Other	57	(5)	61	(6)	54	(5)	58	(4)
Customer resources distributed but not managed	5	-	6	-	5	-	6	-
Insurance products	4	-	5	-	4	-	5	-
Building society brokerage	1	-	1	-	1	-	1	-
Lending business	10	(1)	11	(1)	7	(1)	9	(1)
Loan commitments given, Loan commitments received	3	(1)	2	(1)	1	(1)	1	(1)
Guarantees given, guarantees received	6	-	8	-	6	-	8	-
Other lending business	1	-	1	-	-	-	-	-
Other	4	(3)	4	(2)	1	-	1	-
Total fee and commission income and expenses	**159**	**(42)**	**171**	**(46)**	**114**	**(35)**	**125**	**(38)**
Net fee and commission income	**117**	**-**	**125**	**-**	**79**	**-**	**87**	**-**

The fee and commission income and expense, which are presented in this table, are not an integral part of the effective interest rate.

Fees relating to financial assets and financial liabilities not measured at FVTPL for 2023 amount EUR149 million for the Group and EUR 105 million for the Bank in income (2022: EUR 139 million for the Group and EUR 96 million for the Bank) and EUR 45 million for the Group and EUR 36 milion for the Bank in expense (2022: EUR 40 million for the Group and EUR 33 million for the Bank).

4. Dividend income

Dividend income is recognised when the right to receive the payment is established.
This line item includes dividend from shares and other equity investments in all measurement categories.

in EUR million	GROUP		BANK	
	2022	2023	2022	2023
Shareholdings in subsidiaries and associate	-	-	6	8
Dividend income	**-**	**-**	**6**	**8**

5. Net trading and fair value result

Results arising from trading activities include all gains and losses from changes in fair value (clean price) on financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. In addition, ‘Net trading result’ includes foreign exchange gains and losses on monetary assets and liabilities.

The accounting policy for recognition of foreign exchange gains and losses is described in the chapter Material accounting policy information, Accounting and measurement methods, i. Foreign currency translations, ii. Transactions and balances in foreign currency.

5. Net trading and fair value result (continued)

in EUR million	GROUP 2022	GROUP 2023	BANK 2022	BANK 2023
Securities and derivatives trading	1	2	1	-
Foreign exchange transactions	39	13	40	14
Net trading and fair value result	**40**	**15**	**41**	**14**

The amounts of the fair value changes that are attributable to changes in own credit risk can be found in the Chapter Risk management.

6. Gains/losses from financial assets and liabilities measured at fair value through profit or loss, net

Changes in fair value (clean price) of non-trading financial assets at fair value through profit or loss are reported under this line item.

in EUR million	GROUP 2022	GROUP 2023	BANK 2022	BANK 2023
Result from measurement of financial assets mandatorily at FVPL	(2)	1	(2)	1
Gains/losses from financial instruments measured at fair value through profit or loss	**(2)**	**1**	**(2)**	**1**

7. Rental income from investment properties & other operating leases

Rental income from investment properties and other operating leases is recognised on a straight-line basis over the lease term.

in EUR million	GROUP 2022	GROUP 2023	BANK 2022	BANK 2023
Other operating leases	8	7	-	-
Rental income from investment properties & other operating leases	**8**	**7**	**-**	**-**

More detailed information about assets under operating lease is provided in Note 38 Property, equipment and Investment property.

8. General administrative expenses

Personnel expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions. They also include service cost for severance payments, pension and jubilee obligations and remeasurements of jubilee obligations. Other personnel expenses include remuneration of management and employees related to IFRS 2 Employee share program. More detailed information is provided in Note 50 Share based payment.

Other administrative expenses

Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants.

Depreciation and amortisation

This line item comprises depreciation of property and equipment, depreciation of investment property, depreciation of right of use assets and amortisation of intangible assets.

8. General administrative expenses (continued)

	GROUP		BANK	
in EUR million	2022	2023	2022	2023
Personnel expenses	**(114)**	**(128)**	**(89)**	**(100)**
Wages and salaries	(98)	(109)	(76)	(85)
Compulsory social security	(13)	(15)	(10)	(12)
Other personnel expenses	(3)	(4)	(3)	(3)
Other administrative expenses	**(93)**	**(105)**	**(73)**	**(86)**
Deposit insurance contribution	(8)	(9)	(6)	(7)
IT expenses	(33)	(38)	(33)	(39)
Expenses for office space	(12)	(13)	(10)	(11)
Office operating expenses	(20)	(21)	(10)	(11)
Advertising/marketing	(11)	(12)	(7)	(8)
Legal and consulting costs	(8)	(9)	(6)	(8)
Sundry administrative expenses	(1)	(3)	(1)	(2)
Depreciation and amortisation	**(33)**	**(31)**	**(20)**	**(19)**
Software and other intangible assets	(11)	(8)	(6)	(5)
Owner occupied real estate	(5)	(6)	(4)	(5)
Movable other property	(6)	-	-	-
Office furniture and equipment and sundry property and equipment	(11)	(17)	(10)	(9)
General administrative expenses	**(240)**	**(264)**	**(182)**	**(205)**

The Group does not have pension arrangements separate from the State pension system of Croatia. This system requires that current contributions by the employer are calculated as a percentage of current gross salary payments; these expenses are charged to the statement of profit or loss in the period in which the related compensation is earned by the employee. In 2023 expense amount for pension contributions was EUR 17 million for the Group (2022: EUR 15 million) and EUR 14 million for the Bank (2022: EUR 12 million).
More detailed information about depreciation and amortisation is provided in Note 38 and Note 39.

Number of employees on a full time equivalent basis

	2022	2023
Erste&Steiermärkische Bank d.d.	2,490	2,513
Erste Card Club d.o.o.	225	223
Erste Nekretnine d.o.o.	25	26
Erste Group IT HR d.o.o.	68	71
Erste bank Podgorica d.d.	301	315
Erste&Steiermärkische S-Leasing d.o.o.	97	96
Total	**3,206**	**3,244**

Number of employees on a full time equivalent basis is disclosed in accordance with Credit Institutions Act and it represents number of employees calculated with actual paid working hours in the period;

9. Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss

This line item includes derecognition gains or losses on financial assets measured at fair value through other comprehensive income, financial liabilities measured at amortised cost and other financial instruments not measured at fair value through profit or loss, such as finance lease receivables or financial guarantees.

However, if such gains/losses relate to financial assets in Stage 3 they are reported under the line 'Impairment result from financial instruments'.

	GROUP		BANK	
in EUR million	2022	2023	2022	2023
Disposal of financial assets at FVOCI	-	(21)	-	(21)
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	**-**	**(21)**	**-**	**(21)**

10. Impairment result from financial instruments

Net impairment losses on financial instruments comprise impairment losses and reversals of impairment on all financial instruments to which the IFRS 9 expected credit loss model applies. The impairment result also includes direct write-offs and recoveries on written-off financial assets. Modification gains and losses recognised on financial assets in Stage 2, Stage 3 and POCI assets are also included in this line item.

Moreover, gains/losses from derecognition of financial assets in Stage 3 and POCI assets are presented as part of the impairment result.

	GROUP		BANK	
in EUR million	2022	2023	2022	2023
Financial assets at FVOCI	2	4	1	3
Financial assets at AC	66	54	60	53
Net release to credit loss allowances	52	42	49	41
Direct write-offs	(1)	(2)	-	-
Recoveries recorded directly to the income statement	15	14	11	12
Finance lease receivables	2	2	-	-
Net allocation to credit loss allowances	2	2	-	-
Net allocation of credit loss allowances for loan commitments and financial guarantees given	(27)	(14)	(28)	(13)
Impairment result from financial instruments	**43**	**46**	**33**	**43**

Reconciliation of the annual movement in credit loss allowances against the impairment result from financial instruments for the year

	Credit loss allowances			GROUP
in EUR million	Impairment result of financial instruments	Other changes through profit or loss	Changes not affecting profit or loss	Total
Credit loss allowances Jan 23				**(372)**
Net (allocation)/release to credit loss allowances	33	-	-	33
Increase due to passage of time (unwinding correction)	-	(1)	-	(1)
Derecognition due to sales	-	-	2	2
Write-offs	-	-	15	15
Credit loss allowances Dec 23				**(323)**
Impairment gain/(loss) from POCI without CLA	1			
Direct write-offs	(2)			
Recoveries recorded directly to the income statement	14			
Impairment result from financial instruments	**46**			

10. Impairment result from financial instruments (continued)

Reconciliation of the annual movement in credit loss allowances against the impairment result from financial instruments for the year (continued)

	Credit loss allowances			GROUP
in EUR million	Impairment result of financial instruments	Other changes through profit or loss	Changes not affecting profit or loss	Total
Credit loss allowances Jan 22				**(458)**
Net (allocation)/release to credit loss allowances	24	-	-	24
Increase due to passage of time (unwinding correction)	-	(2)	-	(2)
Derecognition due to sales	-	-	5	5
Write-offs	-	-	62	62
Changes in scope of consolidation	-	-	(1)	(1)
Other	-	(2)	-	(2)
Credit loss allowances Dec 22				**(372)**
Impairment gain/(loss) from POCI without CLA	5			
Direct write-offs	(1)			
Recoveries recorded directly to the income statement	15			
Impairment result from financial instruments	**43**			

	Credit loss allowances			BANK
in EUR million	Impairment result of financial instruments	Other changes through profit or loss	Changes not affecting profit or loss	Total
Credit loss allowances Jan 23				**(314)**
Net (allocation)/release to credit loss allowances	30	-	-	30
Increase due to passage of time (unwinding correction)	-	(1)	-	(1)
Derecognition due to sales	-	-	2	2
Write-offs	-	-	11	11
Credit loss allowances Dec 23				**(272)**
Impairment gain/(loss) from POCI without CLA	1			
Recoveries recorded directly to the income statement	12			
Impairment result from financial instruments	**43**			

	Credit loss allowances			BANK
in EUR million	Impairment result of financial instruments	Other changes through profit or loss	Changes not affecting profit or loss	Total
Credit loss allowances Jan 22				**(387)**
Net (allocation)/release to credit loss allowances	17	-	-	17
Increase due to passage of time (unwinding correction)	-	(1)	-	(1)
Write-offs	-	-	57	57
Credit loss allowances Dec 22				**(314)**
Impairment gain/(loss) from POCI without CLA	5			
Recoveries recorded directly to the income statement	11			
Impairment result from financial instruments	**33**			

11. Other operating result

The other operating result reflects all other income and expenses not directly attributable to the Bank's and the Group's ordinary activities.

In particular this includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment, investment property and intangible assets. Any impairment losses on goodwill are also included in this line item.

In addition, other operating result encompasses the following: expenses for other taxes and certain regulatory charges, income from the release of and expenses for allocations to provisions, impairment losses (and their reversal if any) as well as selling gains and losses on equity investments accounted for using the equity method and gains or losses from derecognition of subsidiaries.

in EUR million	GROUP 2022	GROUP 2023	BANK 2022	BANK 2023
Other operating expenses	**(47)**	**(22)**	**(38)**	**(15)**
Allocation to other provisions	(25)	(15)	(17)	(15)
Recovery and resolution fund contributions	(5)	-	(4)	-
Impairment of goodwill	(17)	-	-	-
Impairment of investment in subsidiaries	-	-	(17)	-
Result from other operating expenses/income	-	(7)	-	-
Other operating income	**3**	**-**	**3**	**1**
Result from other operating expenses/income	3	-	3	1
Other operating result	**(44)**	**(22)**	**(35)**	**(14)**

Impairment of goodwill and Impairment of investment in subsidiaries

For the Group, in the line item 'Impairment of goodwill' is presented recognised impairment loss on goodwill and for the Bank, it is recognized in line 'Impairment of investment in subsidiaries' as impairment loss on investment in Erste Card Club d.o.o. for 2022. For detailed infomation, please see Note 39 Intangible assets, Goodwill.

12. Income tax

Income tax comprises of current and deferred tax.

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period. However, they are recognised in other comprehensive income or directly in equity if they arise from a transaction or event which itself is recognised in OCI or equity.

Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Income tax are made up of current income taxes calculated in each of the Group companies based on the results reported for tax purposes, corrections to income tax for previous years, if any, and the change in deferred taxes.

	GROUP		BANK	
in EUR million	**2022**	**2023**	**2022**	**2023**
Current tax expense / income	(52)	(50)	(47)	(45)
Current period	(52)	(50)	(47)	(45)
Deferred tax expense / income	3	(3)	5	(2)
Current period	3	(3)	5	(2)
Total	**(49)**	**(53)**	**(42)**	**(47)**

The following table reconciles the income taxes reported in the statement of profit or loss to the pre-tax profit/loss multiplied by the nominal Croatian tax rate of 18% (2022:18%).

	GROUP		BANK	
in EUR million	**2022**	**2023**	**2022**	**2023**
Pre-tax profit	205	298	172	266
Income tax expense for the financial year at the domestic statutory tax rate	(37)	(54)	(31)	(48)
Impact of different foreign tax rates	-	1	-	-
Impact of tax-exempt earnings of investments and other tax-exempt income	1	-	1	1
Tax increases due to non-deductible expenses, additional business tax and similar elements	(1)	-	-	-
Tax income/(expense) attributable to other effects	(12)	-	(12)	-
Total	**(49)**	**(53)**	**(42)**	**(47)**
Effective tax rate	**24%**	**18%**	**25%**	**18%**

In December 2022 the Government introduced the Law on Additional income tax (so-called windfall tax). The Additional income tax was applicable only for one tax period, namely for the year 2022, to all companies regardless of the type of performed business activity with revenues in excess of EUR 40 million in 2022. The basis for calculating Additional income tax was the positive difference between the taxable profit for 2022 and the average taxable profit in periods 2018-2021 increased by 20%. The tax rate was 33% and the due tax should have been paid until end of April 2023. Tax expense attributable to the Additional income tax for the Bank in 2022 amounted to EUR 12 million.

12. Income tax (continued)

Major components of deferred tax assets and deferred tax liabilities

								GROUP
	Tax assets		Tax liabilities		Net variance 2023			
in EUR million	As of Dec 2023	As of Dec 2022	As of Dec 2023	As of Dec 2022	Total	Through profit or loss	Through other equity	Through other compreh ensive income
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	3	4	-	-	(1)	(1)	-	-
Financial assets at fair value through other comprehensive income	10	20	-	-	(10)	-	-	(10)
Financial assets at amortised cost & trade & other receivables	6	5	-	-	1	1	-	-
Impairment of investments in subsidiaries	15	16	-	-	(1)	(1)	-	-
Other provisions (tax valuation different)	-	1	-	-	(1)	(1)	-	-
Other	7	8	-	-	(1)	(1)	-	-
Total deferred taxes	**41**	**54**	**-**	**-**	**(13)**	**(3)**	**-**	**(10)**
Current taxes	**2**	**1**	**(18)**	**(33)**	**(50)**	**(50)**	**-**	**-**
Total taxes	**43**	**55**	**(18)**	**(33)**	**(63)**	**(53)**	**-**	**(10)**

								GROUP
	Tax assets		Tax liabilities		Net variance 2022			
in EUR million	As of Dec 2022	As of Dec 2021	As of Dec 2022	As of Dec 2021	Total	Through profit or loss	Through other equity	Through other compreh ensive income
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	4	1	-	-	3	3	-	-
Financial assets at fair value through other comprehensive income	20	-	-	(4)	24	-	-	24
Financial assets at amortised cost & trade & other receivables	5	7	-	-	(2)	(2)	-	-
Impairment of investments in subsidiaries	16	13	-	-	3	3	-	-
Other provisions (tax valuation different)	1	-	-	-	1	1	-	-
Other	8	10	-	-	(2)	(2)	-	-
Effect of netting according IAS 12.71	-	(4)	-	4	-	-	-	-
Total deferred taxes	**54**	**27**	**-**	**-**	**27**	**3**	**-**	**24**
Current taxes	**1**	**-**	**(33)**	**(12)**	**(52)**	**(52)**	**-**	**-**
Total taxes	**55**	**27**	**(33)**	**(12)**	**(26)**	**(49)**	**-**	**24**

12.Income tax (continued)

Major components of deferred tax assets and deferred tax liabilities (continued)

								BANK
	Tax assets		Tax liabilities		Net variance 2023			
in EUR million	As of Dec 2023	As of Dec 2022	As of Dec 2023	As of Dec 2022	Total	Through profit or loss	Through other equity	Through other compreh ensive income
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	3	4	-	-	(1)	(1)	-	-
Financial assets at fair value through other comprehensive income	9	19	-	-	(10)	-	-	(10)
Financial assets at amortised cost & trade & other receivables	2	2	-	-	-	-	-	-
Impairment of investments in subsidiaries	15	15	-	-	-	-	-	-
Other	4	5	-	-	(1)	(1)	-	-
Total deferred taxes	**33**	**45**	**-**	**-**	**(12)**	**(2)**	**-**	**(10)**
Current taxes	**-**	**-**	**(16)**	**(31)**	**(45)**	**(45)**	**-**	**-**
Total taxes	**33**	**45**	**(16)**	**(31)**	**(57)**	**(47)**	**-**	**(10)**

								BANK
	Tax assets		Tax liabilities		Net variance 2022			
in EUR million	As of Dec 2022	As of Dec 2021	As of Dec 2022	As of Dec 2021	Total	Through profit or loss	Through other equity	Through other compreh ensive income
Trading Assets / Liabilities and Designation at fair value through Profit or Loss	4	1	-	-	3	3	-	-
Financial assets at fair value through other comprehensive income	19	-	-	(4)	23	-	-	23
Financial assets at amortised cost & trade & other receivables	2	2	-	-	-	-	-	-
Impairment of investments in subsidiaries	15	12	-	-	3	3	-	-
Other	5	7	-	-	(2)	(2)	-	-
Effect of netting according IAS 12.71	-	(4)	-	4	-	-	-	-
Total deferred taxes	**45**	**18**	**-**	**-**	**27**	**4**	**-**	**23**
Current taxes	**-**	**-**	**(31)**	**(10)**	**(47)**	**(47)**	**-**	**-**
Total taxes	**45**	**18**	**(31)**	**(10)**	**(20)**	**(42)**	**-**	**23**

Financial instruments –Material accounting policy information

Accounting and measurement methods for financial instruments

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party.
In accordance with IFRS 9, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised on the statement of financial position and measured in accordance with their assigned categories.

Regular way (spot) purchases and sales of financial assets are recognized at the settlement date (settlement date accounting), which is the date when the asset is delivered.

Measurement of financial assets and financial liabilities is subject to two primary measurement methods: at amortised cost and fair value.

i. Amortised cost and effective interest rate

Amortised cost of the financial asset is the amount at which a financial asset or a financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. Gross carrying amount of the financial asset is the amortised cost of the financial asset before adjustment for loss allowances.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of the financial asset or net carrying amount of financial liability. The effective interest rate is calculated on initial recognition of an instrument. For floating rate financial instruments, periodic reestimation of cash flows to reflect movements in market rates of interest, alters the effective interest rate.
When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but shall not consider expected credit losses. The calculation includes origination fees that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts to the par amount.

ii. Fair value

Details on valuation techniques applied for fair value measurement and on the fair value hierarchy are disclosed in Note 21 Fair value of assets and liabilities.

Classification and subsequent measurement of financial assets

In accordance with IFRS 9, the classification and subsequent measurement of financial assets depends on the following two criteria:
i. The business model for managing the financial assets ; and
ii. The cash flow characteristics of the financial assets.

Business models for managing the financial assets
The business model is determined at a level which reflects how groups of financial assets are managed together to achieve a particular business objective. The assessment is focused on whether the assets are held in order to collect contractual cash flows, to both collect contractual cash flows and sell financial assets or sell financial assets.

Business model is determined by the key management personnel and it does not depend on management’s intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and it is determined on a higher level of aggregation.

Classification and subsequent measurement of financial assets (continued)

Furthermore, business model can be observed by the way an entity is managed and information is provided to its management. The main criteria for performing the assessment stated in this paragraph can be grouped as follows:

_ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
_ The risks that affect the performance of the business model (and the financial assets held within that business model) and in particular, the way in which those risks are managed; and
_ How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The Group, based on the assessment performed in accordance with the IFRS 9 requirements, defined its business models:

1) Business model 'hold to collect' for entire loan portfolio (client business), for which hold-to-collect assessment of the sales within hold to collect contractual cash flows business model is performed on a yearly basis. From the Group's point of view, sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory or tax environment, major internal reorganisation or a business combination, severe liquidity crisis, etc.) are considered as not contradicting the hold to collect contractual cash flows business model.
   Cases of sales carried out in the 'hold to collect' business model are assessed retrospectively, based on retrospective information about the frequency, number, amount and the reasons for past sales and if they exceed certain quantitative thresholds, where the carrying amount of the sold assets held within the hold to collect portfolio measured at amortised cost is:
   > 1% of the moving average carrying amount of the portfolio in the respective period over last 3 months,
   > 3% of the moving average carrying amount of the portfolio in the respective period over last 12 months or
   > 5% of the moving average carrying amount of the portfolio in the respective period over last 36 months), OR

   it is considered necessary with regard to new managements expectations that the threshold in the prospective assessment could be breached, the Group performs a prospective test.
   If the outcome is that the carrying amount of assets expected to be sold over the expected life of the current business model portfolio, for reasons other than the cases above, exceeds 10% of the carrying amount of the portfolio, any new acquisitions or originations of assets would be classified in a different business model.
2) Business models 'hold to collect', 'hold and sell' and other business models for securities (non-client business).
   For sales of securities held under business model "hold to collect" a hold-to-collect assessment is performed as explained above for the loan portfolio.

Characteristics of contractual cash flows (SPPI test)
As required by IFRS 9, the Group performs the assessment of whether the contractual cash flows of financial assets give rise, on specific dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test).

The Group, based on this assessment, and taking into account the business model under which the financial asset is managed, determines the classification and measurement category of financial assets.
The SPPI assessment is an instrument-by-instrument assessment meaning the cash flow characteristics of the financial asset shall be assessed on a contractual level.

Generally, contractual cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding are consistent with a basic lending arrangement. In the basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest. Interest can also include following basic elements:
Interest = Consideration for time value of money + Credit Spread + Admin costs + Compensation for any 'other basic lending risks' + Reasonable profit margin.

Classification and subsequent measurement of financial assets (continued)

If the contractual terms include characteristics that are not the basic elements of interest and therefore introduce exposure to risks or volatility in the contractual cash flows that are unrelated to basic lending arrangement, then financial asset fails the SPPI test. For financial assets not passing the SPPI test, measurement at amortised cost or at fair value through other comprehensive income is not possible and the assets must be measured at fair value through profit or loss.
Furthermore, the significance of any ‘modifications’ to the time value of money element of interest (e.g. mismatch between interest rate reset frequency and tenor of the interest rate, or non-standard base rate, etc.) shall be assessed by applying the ‘benchmark test’.
The purpose of the benchmark test is to determine whether the modified time value of money element could result in contractual (undiscounted) cash flows which are significantly different from the (undiscounted) benchmark cash flows (benchmark deal). Apart from the interest mismatch features, the terms of this benchmark deal correspond to the asset in the test. If the difference is material, the financial asset does not meet the SPPI condition. Hence, the fair value through profit or loss measurement applies.
To make this determination, the Group must consider the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

Application of the business model and SPPI test criteria leads to classification of financial assets into the following measurement categories described in the respective note:

1) Financial assets at amortised cost (AC)
2) Financial assets at fair value through other comprehensive income (FVOCI)
3) Financial assets at fair value through profit or loss (FVPL)

Classification and subsequent measurement of financial liabilities
Financial liabilities are classified as measured at amortised cost, except for:
- Financial liabilities at fair value through profit or loss
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition
- Financial guarantee contracts
- Commitments to provide a loan at a below-market interest rate
- Contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

Interest expense is calculated by applying the EIR to the amortised cost of a financial liability.
Further details on financial liabilities are in the Note 16.

Impairment of financial instruments under IFRS 9

Expected credit loss model
Expected credit loss model is more forward-looking impairment model, meaning a credit event (or impairment ‘trigger’) no longer has to occur before credit losses are recognised. Therefore, the measurement of expected credit losses is performed at origination/purchase of a financial instrument and credit losses are recognised at its initial recognition. Main characteristic of the model is that all reasonable and supportable information that is available to the Group considering past due information, current conditions and forward-looking information are used for expected credit loss measurement. This model applies to all financial instruments that are subject to impairment, regardless of the type of the instrument or its measurement category.

The following financial instruments are included within the scope of IFRS 9 impairment requirements:
- Financial assets measured at amortised cost
- Financial assets measured at fair value through other comprehensive income (except equity instruments)
- Other debt instruments in the scope of IFRS 9 impairment requirements (finance/operating lease receivables, trade and other receivables, contract assets)
- Loan commitments given
- Financial guarantees contracts to which IFRS 9 applies

Credit loss is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive, discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Impairment of financial instruments under IFRS 9 (continued)

12-month expected credit loss is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime expected credit loss is defined as the expected credit losses that result from all possible default events over the expected life of a financial instrument.

For financial instruments in scope of IFRS 9 impairment requirements, the Group always recognises (at a minimum) the loss allowance in the amount of 12-month expected credit loss in profit or loss. Loss allowance in the amount of the lifetime expected losses is recognised on instruments for which there is a significant increase in credit risk since initial recognition or on credit impaired financial instruments.

Loss allowance is the way the expected credit losses are reflected in accounting:
- as the allowance for expected credit losses on financial assets measured at amortised cost, lease receivables or contract assets, booked on a separate account decreasing the carrying amount of the asset, included in the net carrying amount of the financial assets on the statement of financial position;
- as the accumulated impairment amount for financial assets measured at fair value through other comprehensive income recognized against other comprehensive income (not decreasing the carrying amount of the asset), reported under the line item 'Fair value reserve'; or
- as the provision (liability) for loan commitments and financial guarantees given, reported under the line item 'Provisions' in the statement of financial position.

In the statement of profit or loss, impairment losses and their reversals (gains) on all types of financial instruments are reported under the line item 'Impairment result from financial instruments'.

When a financial asset subsequently becomes credit-impaired financial asset, the interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods as long as the asset is credit-impaired. From balance sheet perspective, interest is accrued based on the financial assets' gross carrying amount. The difference between the interest accrued on the assets and the interest income recognised is reflected through the allowance account (without impacting the impairment loss).

For financial assets that are credit-impaired at initial recognition (purchased or originated credit-impaired financial assets "POCI") lifetime expected credit losses are initially reflected in the credit-adjusted effective interest rate. Subsequently, only adverse changes in lifetime expected credit losses after the initial recognition are recognised as loss allowance, whilst favourable changes are recognised as impairment gains increasing the gross carrying amount of the POCI financial assets. No impairment stages are distinguished for the POCI financial assets.

As previously mentioned, financial guarantees and loan commitments fall under the scope of IFRS 9 impairment model. For loan commitments and financial guarantees, the date that the Group becomes a party to the irrevocable commitment is the date of initial recognition for impairment purposes. Provisions for expected credit losses are not reversed when recognising the financial asset resulting from the loan commitment. Instead, the amount previously recognised as provision is transferred to the loss allowance, with only the difference up to the newly calculated loss allowance for resulting financial asset recognised in profit or loss as allocation or release of allowance (except for POCI).

Stages of credit quality of financial instruments

The three-stage approach for impairment of financial instruments, based on whether there has been a significant deterioration in the credit risk of the financial asset is defined. The stage of the financial instrument determines the amount of expected credit loss to be recognised as well as the amount of interest revenue recognised for the period:

Stage 1
- credit risk for the financial instrument has not increased significantly since initial recognition
- the loss allowance (or provision): at an amount equal to 12-month expected credit loss
- interest revenue: recognised based on the gross carrying amount of the financial asset

Impairment of financial instruments under IFRS 9 (continued)

Stage 2
_ credit risk for the financial instrument has significantly increased since initial recognition
_ the loss allowance (provision): at an amount equal to lifetime expected credit loss
_ interest revenue: recognised based on the gross carrying amount of the financial asset

Stage 3
_ financial instrument is identified as credit-impaired
_ the loss allowance (provision): at an amount equal to lifetime expected credit loss
_ interest revenue: recognised based on the net carrying amount (amortised cost) of the financial asset

Measurement of expected credit losses reflects cash flows expected from collateral and those financial guarantees held by Group which are considered as integral to the contractual terms of financial assets whose risk is guaranteed. Group considers as integral those guarantees which are entered into at or close to the inception of the guaranteed financial assets. If the bank has in a loan contract an option to require provision of a guarantee, it is also considered as integral. Premiums paid for integral financial guarantees and other credit enhancements are considered in the EIR of the related financial assets.

Financial guarantees which are not considered integral are recognised as reimbursement assets under 'Other assets' in the balance sheet. In the statement of profit or loss they reduce the impairment loss incurred on guaranteed financial assets under 'Impairment result from financial instruments'. A precondition for this treatment is that it must be virtually certain that the guarantee would reimburse the bank for the loss. Premiums paid for non-integral financial guarantees are presented in the statement of income under the line item 'Fee and commission expense' under 'Net fee and commission income'.

More detailed information about identification of significant increase in credit risk including collective assessment, estimation techniques used to measure 12-month and lifetime expected credit losses and definition of default is provided in chapter Risk management.

Derecognition of financial instruments including treatment of contractual modifications

(i) Derecognition of financial assets

The difference between the carrying amount of the derecognised asset and the consideration received is reported in the statement of profit or loss under the line item 'Gains/losses from derecognition of financial assets measured at amortised cost' or, for financial assets at fair value through other comprehensive income, under the line item 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.
For financial assets measured at fair value through profit or loss, all gains and losses are reported in the line item 'Net trading result' or 'Gains/losses from financial instruments measured at fair value through profit or loss'.

(ii) Derecognition criteria with respect to contractual modifications of financial assets

In the normal course of running its lending business and in agreement with the respective debtors, the Group may renegotiate or otherwise modify some terms or conditions of the underlying contracts. This can involve either market-driven commercial renegotiations or contractual changes aimed at alleviating or preventing borrower's financial difficulty.
In some circumstances, the renegotiation or modification of the contractual cash flows of the financial asset can lead to derecognition of the existing financial asset and initial recognition of the modified financial asset.

Derecognition of financial instruments including treatment of contractual modifications (continued)

The Group has developed a set of derecognition criteria that reflect modifications which are (either quantitatively or qualitatively) substantial enough, to satisfy the derecognition trigger:

- The modification results in a change of the contractual counterparty
- The modification results in one (or more) preceding contractual agreement(s) being changed in any of the following manners: currency change, the modification involves the introduction or removal of one or more contractual clauses which would trigger different IFRS 9 classification/measurement of a new instrument, the modification results in adjustment of the maturity/due dates of the repayment schedule, the modification results in changing amounts and/or due dates of the contractually due cash flows, and the arising modification loss/gain exceeds 10% of asset's gross carrying amount outstanding at the current modification date.
- The modification results from a commercial renegotiation of a performing non-forborne lending agreement and is initiated by a customer seeking for better terms and conditions as alternative to re-financing or early termination (prepayment).

As already mentioned, contractual modifications leading to derecognition of the related original asset result in the initial recognition of a new financial asset. For loans measured at amortised cost, the unamortised balance of the origination fees/transaction costs considered in the effective interest rate is presented in the line item 'Interest income' under 'Net interest income' at the derecognition date. The release of the credit loss allowance attached to the original asset at the date of that significant modification as well as the credit loss allowance recognised for the new asset are presented in the line item 'Impairment result from financial instruments'.
If the debtor is in default or the significant modification leads to the default, new asset is treated as POCI. The difference between the carrying amount of the derecognised asset and initial fair value of the new POCI asset is reported in the statement of profit or loss in the line item 'Impairment result from financial instruments'.

Modifications of contractual cash flows not leading to derecognition of financial asset represent all contractual changes which affect amount and/or repayment schedule of the remaining contractual cash flows but do not lead to derecognition.
For debt instruments assets not measured at FVPL that are subject to a change in underlying cash flows due to contractual modifications that do not result in derecognition, the Group is obliged to recalculate the gross carrying amount of the financial asset and recognise a modification gain or loss in profit or loss. The gross carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets):

- Modification loss: if the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate is lower than the gross carrying amount of the financial asset before the modification
- Modification gain: if the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate is higher than the gross carrying amount of the financial asset before the modification.

In the statement of profit or loss, the modification gain or loss is presented in the line item 'Interest income' under 'Net interest income' if the modification relates to financial assets in Stage 1. For financial assets in Stage 2 and 3 and POCI financial assets, the modification gain or loss is presented in the line item 'Impairment result from financial instruments'.

(iii) Write-off
If there are no reasonable expectations of recovery, the Group will write-off the gross carrying amount of the financial assets. The written-off amount can be either full write-off or partial write-off.
A write-off constitutes a derecognition event and it is recognized as an offset between the loss allowance booked for the respective financial asset and its gross carrying amount.

Derecognition of financial instruments including treatment of contractual modifications (continued)

The Group has specified criteria for writing off the unrecoverable balances in its loan business:
Write-off can result from forbearance measures whereby the Group contractually waives part of the existing balance in order to help the customers overcome financial difficulties and thus improve the prospects of recovering the remaining loan balance. Write-offs of the unrecoverable exposure parts can be triggered by enforcement activities such as filing or termination of legal proceedings (bankruptcy, liquidation, court case).

Other write-off triggers may result from decisions about no enforcement due to worthlessness of the claim/collateral or generally from assessment that the receivable is economically lost or, the non-recoverability and the timing and amounts of write-off crystallise during the collection process when it becomes evident that the amount due cannot be collected, e.g. due to ongoing bankruptcy proceedings. For more information on Forbearance please refer to Note 33 Restructuring, renegotiation and forbearance.

(iv) Derecognition of financial liabilities
In the statement of profit or loss, the difference between the carrying amount of the derecognised financial liability and the consideration paid is presented in the line item ‘Other gains/losses from financial instruments not measured at fair value through profit or loss‘, ‘Gains/losses from financial instruments measured at fair value through profit or loss’ and ‘Net trading result’ depending on the measurement category of the derecognised financial liability.

Material accounting judgements, assumptions and estimates

Impairment of financial instruments
The expected credit loss impairment model is inherently based on judgement since it requires assessment of significant increase in credit risk and measurement of expected credit losses without providing detailed guidance. In respect of significant increase in credit risk, the Group has determined specific assessment rules consisting of qualitative information and quantitative thresholds. Another area of complexity relates to establishing groups of similar assets when credit risk deterioration has to be assessed on a collective basis before specific information is available at individual instrument level. Measurement of expected credit losses involves complex models relying on historical statistics of probabilities of default and loss rates in case of defaults, individual estimates of credit-adjusted cash flows and probabilities of various scenarios including forward-looking information. In addition, the life of the instruments has to be modelled in respect of behavioural life of revolving credit facilities.
Detailed disclosures are provided in chapter Risk management. For further information on the definition of default refer to Note 30 Measurement of expected credit loss.
The development of loan loss provisions is described in Note 31 Development of credit loss allowances.

Financial instruments held at amortised cost (AC)

Non derivative financial assets are measured at amortised cost if both of the following conditions are met:
- The financial asset is held within a business model whose objective is to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortised cost include debt securities and loans and advances that do meet the conditions stated above as well as trade receivables and other receivables and cash and cash balances. On the statement of financial position, they are presented under the line item 'Financial assets at amortised cost', 'Trade and other receivables' and 'Cash and cash balances'.

Gains and losses, resulting from subsequent measurement of financial assets measured at amortised cost, are recognised as follows:
- Interest income is recognised in profit or loss, by using effective interest rate method, and presented in the line item 'Interest income' under 'Net interest income' in the statement of profit or loss
- Allowances for expected credit loss (gains and losses) are recognised in profit or loss, and presented in the line item 'Impairment result from financial instruments' in the statement of profit or loss
- Gains and losses resulting from foreign currency exchange differences are recognised in profit or loss and presented in the line item 'Net trading and fair value result' in the statement of profit or loss.

Realised gains or losses from derecognition of the assets are recognised in profit or loss for the period and presented in the line item 'Gains/losses from derecognition of financial assets measured at amortised cost'.

Financial assets at amortised cost constitute the largest measurement category in the Group, which includes the loan business to customers, interbank lending business, deposits with central bank, trade and other receivables, investment in debt securities.

For description of financial liabilities measured at amortised cost refer to Note 16.

13. Cash and cash balances

Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours.

	GROUP		BANK	
in EUR million	**2022**	**2023**	**2022**	**2023**
Cash on hand	416	410	370	356
Cash balances at central banks	2,943	1,899	2,875	1,818
Other demand deposits	89	46	24	12
Cash and cash balances	**3,448**	**2,355**	**3,269**	**2,186**

For the Statement of Cash flows for the year ended 31 December 2023, cash and cash equivialents at the end of period 2023 and 2022 for the Group and for the Bank are equal to cash and cash balance

14. Financial assets at amortised cost

The line item 'Financial assets at amortised cost' is further broken down into 'Debt securities', 'Loans and advances to banks' and 'Loans and advances to customers'. For details regarding the development of credit loss allowances please refer to Note 31.

Debt securities

Investments in debt securities measured at amortised cost may be acquired with different business objectives (such as fulfilling internal/external liquidity risk requirements and efficient placement of the structural liquidity surplus, strategic positions decided by the board of directors, initiation and fostering of client relationships, substitution of loan business or other yield generating activities). Their common attribute is that significant and frequent sales of such securities are not expected. For a description of what sales are considered as compliant with the hold to collect contractual cash flows business model, see paragraph 'Initial recognition and measurement' in chapter 'Financial instruments – Material accounting policy information'.

The analysis of the gross carrying amount (GCA) and of related credit loss allowances (CLA) of Group's and Bank's debt securities per impairment buckets as of 31 December 2023 and 31 December 2022 is provided in the table below.

									GROUP
	GCA				CLA				
in EUR million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2023									
General governments	1,707	65	-	1,772	-	-	-	-	1,772
Credit institutions	32			32	(1)	-	-	(1)	31
Total	**1,739**	**65**	**-**	**1,804**	**(1)**	**-**	**-**	**(1)**	**1,803**

									GROUP
	GCA				CLA				
in EUR million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2022									
General governments	1,321	-	-	1,321	(1)	-	-	(1)	1,320
Credit institutions	10	-	-	10	-	-	-	-	10
Total	**1,331**	**-**	**-**	**1,331**	**(1)**	**-**	**-**	**(1)**	**1,330**

									BANK
	GCA				CLA				
in EUR million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2023									
General governments	1,661	65	-	1,726	-	-	-	-	1,726
Credit institutions	32			32	(1)	-	-	(1)	31
Total	**1,693**	**65**	**-**	**1,758**	**(1)**	**-**	**-**	**(1)**	**1,757**

									BANK
	GCA				CLA				
in EUR million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2022									
General governments	1,280	-	-	1,280	-	-	-	-	1,280
Credit institutions	10	-	-	10	-	-	-	-	10
Total	**1,290**	**-**	**-**	**1,290**	**-**	**-**	**-**	**-**	**1,290**

For information about development of credit loss allowances refer to Note 31 Development of credit loss allowances, part 'Financial instruments held at amortised cost': table 'Movement in credit loss allowances – debt securities'.

14. Financial assets at amortised cost (continued)

Debt securities (continued)

Listed bonds issued by the Republic of Croatia, Republic of Slovenia, Republic of Slovakia, Republic of Poland and United States of America are fixed income debt securities denominated in EUR, USD and CHF. These bonds have maturities from 2024 to 2035 and bear coupon interest from 0.000% to 6.000% p.a. Also, financial assets at amortized cost include bonds of the European Investment Bank and KfW Bank, denominated in USD with maturities in 2024 and bear coupon interest from 1.625% to 3.250% p.a.

Loans and advances to banks

The analysis of the gross carrying amount (GCA) and of related credit loss allowance (CLA) of Group's and Bank's loans and advances to banks per impairment buckets as of 31 December 2023 and 31 December 2022 is provided in the table below:

									GROUP
	GCA				CLA				
in EUR million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2023									
Central banks	14	-	-	14	-	-	-	-	14
Credit institutions	54	-	-	54	-	-	-	-	54
Total	**68**	**-**	**-**	**68**	**-**	**-**	**-**	**-**	**68**

									GROUP
	GCA				CLA				
in EUR million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2022									
Central banks	325	-	-	325	-	-	-	-	325
Credit institutions	59	-	-	59	-	-	-	-	59
Total	**384**	**-**	**-**	**384**	**-**	**-**	**-**	**-**	**384**

									BANK
	GCA				CLA				
in EUR million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2023									
Credit institutions	31	-	-	31	-	-	-	-	31
Total	**31**	**-**	**-**	**31**	**-**	**-**	**-**	**-**	**31**

									BANK
	GCA				CLA				
in EUR million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Carrying amount
2022									
Central banks	313	-	-	313	-	-	-	-	313
Credit institutions	32	-	-	32	-	-	-	-	32
Total	**345**	**-**	**-**	**345**	**-**	**-**	**-**	**-**	**345**

For information about development of credit loss allowances refer to Note 31 Development of credit loss allowances, part 'Financial instruments held at amortised cost': table 'Movement in credit loss allowances – loans and advances to banks'.

14. Financial assets at amortised cost (continued)

Loans and advances to customers

The analysis of the gross carrying amount (GCA) and of related credit loss allowances (CLA) of loans and advances to customers per impairment buckets as of 31 December 2023 and 31 December 2022 is provided in the table below:

											GROUP
	GCA					CLA					
in EUR million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2023											
General governments	1,297	25	-	-	1,322	(1)	(1)	-	-	(2)	1,320
Other financial corporations	12	1	-	-	13	-	-	-	-	-	13
Non-financial corporations	2,568	952	98	22	3,640	(11)	(50)	(64)	(12)	(137)	3,503
Households	2,908	739	146	1	3,794	(11)	(32)	(101)	-	(144)	3,650
Total	**6,785**	**1,717**	**244**	**23**	**8,769**	**(23)**	**(83)**	**(165)**	**(12)**	**(283)**	**8,486**

											GROUP
	GCA					CLA					
in EUR million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2022											
General governments	1,402	39	-	-	1,441	(1)	(2)	-	-	(3)	1,438
Other financial corporations	2	-	-	-	2	-	-	-	-	-	2
Non-financial corporations	2,171	985	103	28	3,287	(13)	(61)	(68)	(13)	(155)	3,132
Households	2,410	721	156	1	3,288	(10)	(30)	(104)	-	(144)	3,144
Total	**5,985**	**1,745**	**259**	**29**	**8,018**	**(24)**	**(93)**	**(172)**	**(13)**	**(302)**	**7,716**

											BANK
	GCA					CLA					
in EUR million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2023											
General governments	1,247	25	-	-	1,272	(1)	(1)	-	-	(2)	1,270
Other financial corporations	18	1	-	-	19	-	-	-	-	-	19
Non-financial corporations	2,462	888	80	22	3,452	(10)	(48)	(52)	(12)	(122)	3,330
Households	2,543	662	130	1	3,336	(6)	(29)	(88)	-	(123)	3,213
Total	**6,270**	**1,576**	**210**	**23**	**8,079**	**(17)**	**(78)**	**(140)**	**(12)**	**(247)**	**7,832**

											BANK
	GCA					CLA					
in EUR million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2022											
General governments	1,359	40	-	-	1,399	(1)	(2)	-	-	(3)	1,396
Other financial corporations	11	-	-	-	11	-	-	-	-	-	11
Non-financial corporations	2,076	926	91	28	3,121	(12)	(56)	(61)	(13)	(142)	2,979
Households	2,056	649	136	1	2,842	(5)	(26)	(89)	-	(120)	2,722
Total	**5,502**	**1,615**	**227**	**29**	**7,373**	**(18)**	**(84)**	**(150)**	**(13)**	**(265)**	**7,108**

For information about development of credit loss allowances refer to Note 31 Development of credit loss allowances, part ‘Financial instruments held at amortised cost’: table ‘Movement in credit loss allowances – loans and advances to customers’.

15. Trade and other receivables

GROUP

in EUR million	GCA Stage 1	GCA Stage 2	GCA Stage 3	GCA Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	CLA Total	Carrying amount
2023									
General governments	9	-	-	9	-	-	-	-	9
Credit institutions	6	2	-	8	-	-	-	-	8
Other financial corporations	4	3	-	7	-	-	-	-	7
Non-financial corporations	91	4	4	99	(1)	-	(4)	(5)	94
Households	48	5	9	62	(2)	-	(8)	(10)	52
Total	**158**	**14**	**13**	**185**	**(3)**	**-**	**(12)**	**(15)**	**170**

GROUP

in EUR million	GCA Stage 1	GCA Stage 2	GCA Stage 3	GCA Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	CLA Total	Carrying amount
2022									
General governments	17	-	-	17	-	-	-	-	17
Credit institutions	11	1	-	12	-	-	-	-	12
Other financial corporations	4	-	-	4	-	-	-	-	4
Non-financial corporations	75	18	7	100	(1)	-	(6)	(7)	93
Households	44	4	8	56	(2)	(1)	(7)	(10)	46
Total	**151**	**23**	**15**	**189**	**(3)**	**(1)**	**(13)**	**(17)**	**172**

BANK

in EUR million	GCA Stage 1	GCA Stage 2	GCA Stage 3	GCA Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	CLA Total	Carrying amount
2023									
General governments	9	-	-	9	-	-	-	-	9
Credit institutions	5	2	-	7	-	-	-	-	7
Other financial corporations	5	1	-	6	-	-	-	-	6
Non-financial corporations	82	4	2	88	(1)	-	(2)	(3)	85
Households	-	2	3	5	-	-	(3)	(3)	2
Total	**101**	**9**	**5**	**115**	**(1)**	**-**	**(5)**	**(6)**	**109**

BANK

in EUR million	GCA Stage 1	GCA Stage 2	GCA Stage 3	GCA Total	CLA Stage 1	CLA Stage 2	CLA Stage 3	CLA Total	Carrying amount
2022									
General governments	17	-	-	17	-	-	-	-	17
Credit institutions	11	-	-	11	-	-	-	-	11
Other financial corporations	3	-	-	3	-	-	-	-	3
Non-financial corporations	68	17	3	88	(1)	-	(3)	(4)	84
Households	-	1	3	4	-	-	(2)	(2)	2
Total	**99**	**18**	**6**	**123**	**(1)**	**-**	**(5)**	**(6)**	**117**

Trade and other receivables consist of factoring receivables, card business receivables and other receivables

For information about development of credit loss allowances refer to Note 31 Development of credit loss allowances, part ‘Financial instruments held at amortised cost’: table ‘Movement in credit loss allowances – trade and other receivables’

16. Financial liabilities measured at amortised costs

For presentation in the statement of financial position, the line item ‘Financial liabilities measured at amortised cost’ is used. The line item is further broken down to ‘Deposits from banks’, ‘Deposits from customers’, ‘Debt securities issued’ and ‘Other financial liabilities’.

Interest expense is calculated by using effective interest rate method and presented in the line item ‘Interest expenses’ under ‘Net interest income’ in the statement of profit or loss.

Gains and losses from derecognition of financial liabilities are recognised in profit or loss for the period and presented in the line item ‘Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss’.

Deposits from banks

	GROUP		BANK	
in EUR million	**2022**	**2023**	**2022**	**2023**
Overnight deposits	28	22	30	23
Term deposits	828	754	353	277
Subordinated loan	30	-	30	-
Repurchase agreements	603	8	603	8
Deposits from banks	**1,489**	**784**	**1,016**	**308**

As at 31 December 2023, term deposits from banks include funding from related parties in amount EUR 587 million for the Group and EUR 141 million for the Bank (2022: EUR 577 million for the Group and EUR 141 million for the Bank) and supranational funding of EUR 122 million for the Group and EUR 66 million for the Bank (2022: EUR 200 million for the Group and EUR 136 million for the Bank).

As at 31 December 2023, the average maturity of the Group's debt from related parties is 2.5 years and the interest rate range is 0.74%-5.36% (2022: average maturity is 4.2 years and the interest rate range is 0.74% -5.74%.) The Bank's loans from related parties mature in 2025 and their interest rate is 1.36% plus 3-month EURIBOR.

As at 31 December 2023, the Bank's and the Group’s Repurchase agreements from related parties amount to EUR 8 million, which mature until 31 January 2024, and whose interest rate range is 3.12%-3.30% (2022: EUR 165 million for the Group and the Bank with maturity on 2 January 2023 and interest rate 2.10%).

The subordinated loan received from related parties in amount EUR 30 million was prepaid on 20 December 2023 (2022: EUR 30 million for the Group and the Bank). The Bank received the approval of the CNB and the ECB for the prepayment of the subordinated loan.

16. Financial liabilities measured at amortised costs (continued)

Deposits from customers

As at 31 December 2023, Deposits from customers include Group's funding from HBOR in amount EUR 239 million and Bank's funding from HBOR in amount EUR 215 million (2022: EUR 163 million for the Group and EUR 158 million for the Bank).

	GROUP		BANK	
in EUR million	2022	2023	2022	2023
Overnight deposits	**8,727**	**8,282**	**8,363**	**7,860**
Savings deposits	773	842	773	842
Non-financial corporations	68	106	68	106
Households	705	736	705	736
Non-savings deposits	7,954	7,440	7,590	7,018
General governments	512	711	483	675
Other financial corporations	188	53	194	54
Non-financial corporations	3,125	2,600	2,963	2,422
Households	4,129	4,076	3,950	3,867
Term deposits	**2,448**	**3,027**	**2,310**	**2,848**
Deposits with agreed maturity	2,386	2,999	2,248	2,820
Savings deposits	2,133	2,619	2,078	2,570
Other financial corporations	267	371	264	369
Non-financial corporations	274	912	274	913
Households	1,592	1,336	1,540	1,288
Non-savings deposits	253	380	170	250
General governments	187	296	170	250
Other financial corporations	34	26	-	-
Non-financial corporations	32	58	-	-
Deposits redeemable at notice	62	28	62	28
General governments	1	1	1	1
Non-financial corporations	22	22	22	23
Households	39	5	39	4
Repurchase agreements	**-**	**73**	**-**	**73**
General governments	-	73	-	73
Deposits from customers	**11,175**	**11,382**	**10,673**	**10,781**
General governments	700	1,081	655	999
Other financial corporations	489	450	458	423
Non-financial corporations	3,521	3,698	3,326	3,464
Households	6,465	6,153	6,234	5,895
Other financial liabilities	**118**	**138**	**39**	**52**

16. Financial liabilities measured at amortised costs (continued)

Other financial libilities

Other financial liabilities consist of card transactions liabilities, accounts payables (foreign and domestic suppliers) and other financial liabilities.

Debt securities issued

The Bank issues bonds on the domestic and international capital markets in order to meet the Minimum Requirement for own funds and Eligible Liabilities (MREL) set for the Bank by the Single Resolution Board.

	GROUP		BANK	
in EUR million	2022	2023	2022	2023
Debt securities issued	484	537	484	537
Bonds	484	537	484	537
Debt securities issued	**484**	**537**	**484**	**537**

In June 2023, the Bank issued a three-year senior-preferred bond on the domestic market in the amount of EUR 90 million with an annual interest rate of 4.5% and maturity in 2026. In November 2023, a bond issued on the domestic market in the amount of EUR 40 million matured.

The analysis of the Debt securities issued as of 31 December 2023 and 31 December 2022 is provided in the table below:

2023	Currency	Nominal value EUR million	Interest	Issuance date	Maturity
Senior Preferred	EUR	45	0.85%	5.2.2021	5.2.2026
Senior Preferred	EUR	400	0.84%	6.7.2021	6.7.2028
Senior Preferred	EUR	90	4.50%	26.6.2023	26.6.2026
Total		**535**			

2022	Currency	Nominal value EUR million	Interest	Issuance date	Maturity
Senior	HRK	40	1.50%	30.11.2018	30.11.2023
Senior Preferred	EUR	45	0.85%	5.2.2021	5.2.2026
Senior Preferred	EUR	400	0.84%	6.7.2021	6.7.2028
Total		**485**			

Financial instruments at fair value

FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The fair value through profit or loss measurement category to financial assets is a residual measurement category. This measurement category relates to financial assets that are part of residual business models, i.e. they are neither held in ‘hold to collect’ business model nor held in ‘hold to collect and sell’ business model. These financial assets are generally expected to be sold before their maturity or they are managed, and their performance is evaluated on a fair value basis. Such business models are typical of assets that are held for trading, assets whose value is expected to be primarily realised through sales.
Additionally, financial assets whose contractual cash flows are not considered as SPPI compliant are automatically measured at fair value through profit or loss.

In the statement of financial position, debt instruments measured at fair value through profit or loss are presented as ‘Financial assets held for trading’, sub-items ‘Other financial assets held for trading’ and ‘Non-trading financial assets at fair value through profit or loss’ (sub-items ‘Debt securities’, ‘Loans and advances to banks’ and ‘Loans and advances to customers’).
Non-trading financial assets measured at fair value through profit or loss consists of financial assets mandatorily measured at fair value presented as ‘Financial assets mandatorily at fair value through profit or loss’, sub-item ‘Debt securities’, disclosed in Note 19. Financial assets are mandatorily measured at fair value through profit or loss either because their contractual cash flows are not SPPI compliant, or they are held as part of residual business models that are other than held for trading.
Investments in equity instruments that are held for trading (i.e. financial assets held by the trading function of the Bank) are measured at fair value through profit or loss. They are included in the balance sheet under the line item ‘Financial assets held for trading’, sub-item ‘Other financial assets held for trading’. Investments in equity instruments that are not held for trading are also measured at fair value through profit or loss (unless they are designated at FVOCI). They are presented in the balance sheet under the line item ‘Non-trading financial assets at fair value through profit or loss’, sub-item ‘Equity instruments’, sub-category ‘mandatorily at fair value through profit or loss’ in Note 18.

For recognition of gains and losses resulting from subsequent measurement of financial assets measured at fair value through profit or loss, the following applies:
_ Changes in fair value (gains and losses) are recognised in profit or loss, and presented in the line item ‘Net trading and fair value result’ for financial assets held for trading and in the line item ‘Gains/losses from financial instruments measured at fair value through profit or loss’ in case of non-trading financial assets at fair value through profit or loss
_ Interest income is recognised in profit or loss, by using effective interest rate method, without taking into account any up-front fees or costs directly attributed to the financial assets, and reported in the line item ‘Other similar income’ under ‘Net interest income’ in the statement of profit or loss
_ Dividend income is recognised in profit or loss, and reported in the line item ‘Dividend income’ in the statement of profit or loss
_ Gains and losses resulting from foreign currency exchange differences are recognised in profit or loss and presented in the line item ‘Net trading and fair value result’.

Upon derecognition, gains and losses are recognised in profit or loss, and presented in the line item ‘Net trading result’ for financial assets held for trading and in the line item ‘Gains/losses from financial instruments measured at fair value through profit or loss’ in case of non-trading financial assets at fair value through profit or loss.

Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss consist of financial liabilities held for trading. On the balance sheet, financial liabilities held for trading are reported under the line ‘Financial liabilities held for trading’, sub items ‘Derivatives’ and ‘Other financial liabilities held for trading’.
For recognition of gains and losses resulting from subsequent measurement of financial liabilities measured at fair value through profit or loss, the following applies:
_ Interest expense is reported in the line item ‘Other similar expenses’ under ‘Net interest income’ in the statement of profit or loss
_ Changes in fair value (gains and losses) are recognised in profit or loss, and are reported, for financial liabilities held for trading in the line item ‘Net trading result’ in the statement of profit or loss
_ Gains or losses resulting from derecognition are recognised in profit or loss, and reported, for financial liabilities held for trading in the line item ‘Net trading result’ in the statement of profit or loss.

17. Derivatives – held for trading

Derivative financial instruments are used by the Group to manage exposures to interest rates, foreign currencies and other market price risks. Derivatives used by the Group include mainly interest rate swaps, futures, options, forward rate agreements, and cross currency swaps.

Derivative financial instruments are carried at fair value (dirty price) on the balance sheet, classified as financial instruments held for trading. They are reported in the line 'Derivatives' under the heading 'Financial assets/Financial liabilities held for trading'.
Derivatives are carried as assets if their fair value is positive and as liabilities if their fair value is negative. Changes in the fair value (clean price) of derivatives held for trading are reported in the statement of profit or loss under the line 'Net trading and fair value result'. Interest income/expense recognition is based on EIR-like accruals in respect of the derivative notional amount and includes amortisa-tion of the inception value of the derivative (e.g. upfront fees, if any). Interest income/expense related to derivatives is reported in the statement of profit or loss in the line item 'Other similar income' or 'Other similar expenses' under 'Net interest income'.

						GROUP
	2022			2023		
in EUR million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**530**	**26**	**23**	**1,039**	**22**	**21**
Interest rate	258	23	21	568	18	17
Foreign exchange	272	3	2	471	4	4
Derivatives held in the banking book	**179**	**-**	**-**	**94**	**1**	**-**
Foreign exchange	179	-	-	94	1	-
Total	**709**	**26**	**23**	**1,133**	**23**	**21**

						BANK
	2022			2023		
in EUR million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**530**	**26**	**23**	**1,039**	**22**	**21**
Interest rate	258	23	21	568	18	17
Foreign exchange	272	3	2	471	4	4
Derivatives held in the banking book	**179**	**-**	**-**	**94**	**1**	**-**
Foreign exchange	179	-	-	94	1	-
Total	**709**	**26**	**23**	**1,133**	**23**	**21**

18. Non-trading financial assets at fair value through profit or loss

Financial assets mandatorily at FVPL

	GROUP		BANK	
in EUR million	2022	2023	2022	2023
Equity instruments	3	1	3	1
Debt securities	5	6	5	6
Other financial corporations	4	5	4	5
Non-financial corporations	1	1	1	1
Non-trading financial assets at fair value through profit or loss	**8**	**7**	**8**	**7**

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Non derivative financial assets are measured at fair value through other comprehensive income if both of the following conditions are met:

_ The financial asset is held within a business model whose objective is achieved by both, collecting contractual cash flows and selling financial assets; and
_ The contractual terms of financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at fair value through other comprehensive income include debt instruments and equity instruments for which the Group has elected, at initial recognition, the fair value through other comprehensive income measurement.

The common attribute for investments in debt instruments at fair value through other comprehensive income is that an active yield optimisation via sales is integral to achieving the objectives. The sales are carried out in order to optimise the liquidity position or to realise the fair value gains or losses. As a result, the business objectives are achieved through both collecting contractual cash flows and sales of the securities. On the balance sheet, they are included as 'Debt securities' under the line 'Financial asset at fair value through other comprehensive income'.

For certain investments in equity instruments that are not held for trading, the Group makes use of the option to measure them at fair value through other comprehensive income. This election is applied to strategic, significant banking business relationship investments. On the balance sheet, they are included as 'Equity instruments' under the line 'Financial asset at fair value through other comprehensive income'.
For recognition of gains and losses, resulting from subsequent measurement of financial assets measured at fair value through other comprehensive income, different rules apply depending on whether the financial instrument is debt or equity instrument:

Equity instruments

_ Changes in fair value (gains and losses) are recognised in other comprehensive income, and reported under the line 'Fair value reserve of equity instruments' of the statement of other comprehensive income
_ Dividend income is recognised in profit or loss (unless the dividend clearly represents a recovery of part of the cost of investment), and reported under the line 'Dividend income' of the statement of profit or loss
_ Gains and losses resulting from foreign currency exchange differences are recognised in other comprehensive income and reported under the line 'Fair value reserve of equity instruments'.

The accumulated fair value change recognised in other comprehensive income is never reclassified to profit or loss. However, upon derecognition of the investments in equity instruments, the amount accumulated in other comprehensive income is transferred to retained earnings.

Debt instruments

_ Changes in fair value (gains and losses) are recognised in other comprehensive income, and reported under the line 'Fair value reserve of debt instruments' in the statement of other comprehensive income
_ Interest income is recognised in profit or loss, by using effective interest rate method, and reported in the line item 'Interest income' under 'Net interest income' in the statement of profit or loss
_ Allowances for expected credit loss (gains and losses) are recognised in profit or loss against the accumulated impairment amount in other comprehensive income, and reported under the line 'Impairment result from financial instruments' in the statement of profit or loss
_ Gains and losses resulting from foreign currency exchange differences are recognised, in accordance with the requirements of IAS 21, in profit or loss if they relate to the amortised cost part of the asset, reported under the line 'Net trading result and fair value result' and in other comprehensive income if they relate to other foreign currency exchange differences (fair value related), reported under the line 'Fair value reserve of debt instruments'

Upon derecognition, gains and losses previously recognised in other comprehensive income are reclassified to profit or loss and reported under the line 'Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss'.

19. Financial assets at fair value through other comprehensive income- equity instruments

The usage of the FVOCI option for equity instruments is subject to a separate approval process at Group level. Fair Value through Other Comprehensive Income (FVTOCI) is applied for investments which are not held for trading and in which the Group has a strategic interest. Strategic interest is evidenced by significant business and distribution ties between the Group investor entity and the investee entity and those other non-trading equity investments in non-consolidated entities that are acquired on a non-voluntary basis for example as a result of a regulatory debt-to-equity swap or as a result of an equity conversion of defaulted debt.

The carrying amount of equity instruments at FVOCI (fair value through other comprehensive income) as at 31 December 2023 amounts to EUR 0.5 million for the Group and for the Bank (2022: EUR 0.5 million for the Group and for the Bank).

20. Financial assets at fair value through other comprehensive income- debt instruments

The analysis of gross carrying amounts (GCA) and of related credit loss allowances (CLA) of Group's debt securities at FVOCI per impairment buckets as of 31 December 2023 is provided below:

											GROUP
	GCA				CLA						
in EUR million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Amortised cost	Accumulated OCI changes	Fair value
2023											
General governments	1,016	-	-	1,016	-	-	-	-	1,016	(51)	965
Credit institutions	64	-	-	64	(1)	-	-	(1)	63	(1)	62
Non-financial corporations	46	22	-	68	-	(2)	-	(2)	66	-	66
Total	**1,126**	**22**	**-**	**1,148**	**(1)**	**(2)**	**-**	**(3)**	**1,145**	**(52)**	**1,093**

											GROUP
	GCA				CLA						
in EUR million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Amortised cost	Accumulated OCI changes	Fair value
2022											
General governments	999	174	-	1,173	(1)	(4)	-	(5)	1,168	(106)	1,062
Credit institutions	76	-	-	76	(2)	-	-	(2)	74	(2)	72
Non-financial corporations	25	60	-	85	-	(2)	-	(2)	83	(1)	82
Total	**1,100**	**234**	**-**	**1,334**	**(3)**	**(6)**	**-**	**(9)**	**1,325**	**(109)**	**1,216**

											BANK
	GCA				CLA						
in EUR million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Amortised cost	Accumulated OCI changes	Fair value
2023											
General governments	959	-	-	959	-	-	-	-	959	(48)	911
Credit institutions	64	-	-	64	(1)	-	-	(1)	63	(1)	62
Non-financial corporations	46	22	-	68	-	(2)	-	(2)	66	-	66
Total	**1,069**	**22**	**-**	**1,091**	**(1)**	**(2)**	**-**	**(3)**	**1,088**	**(49)**	**1,039**

20. Financial assets at fair value through other comprehensive income- debt instruments (continued)

											BANK
	GCA				CLA						
in EUR million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Amortised cost	Accumulated OCI changes	Fair value
2022											
General governments	942	174	-	1,116	-	(5)	-	(5)	1,111	(100)	1,011
Credit institutions	76	-	-	76	(2)	-	-	(2)	74	(2)	72
Non-financial corporations	25	61	-	86	-	(2)	-	(2)	84	(1)	83
Total	**1,043**	**235**	**-**	**1,278**	**(2)**	**(7)**	**-**	**(9)**	**1,269**	**(103)**	**1,166**

The gross carrying amount of debt instruments at FVOCI equals the amortised cost before deducting any credit loss allowances. In accordance with IFRS9, for debt instruments classified into this category, other comprehensive income combines the effects of credit loss allowances booked in other comprehensive income and fair value accounting through other comprehensive income.

For information about development of credit loss allowances refer to Note 31 Development of credit loss allowances, part 'Financial assets at fair value through other comprehensive income – debt instruments': table 'Movement in credit loss allowances – debt instrument financial assets'

Debt securities include bonds issued by the Republic of Croatia and other government and corporate bonds.

Bonds of the Republic of Croatia are EUR and USD denominated fixed income debt securities listed at stock exchanges. These bonds have maturities from 2024 to 2033 and bear coupon interest from 0.250% to 6.000% p.a.

Bonds of Republic of Poland are fixed income debt securities denominated in USD and EUR and listed on stock exchanges. These bonds have maturity from 2024 to 2025 and bear coupon interest from 3.000% to 5.250% p.a. Bonds of Montenegro are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturity from 2025 to 2029 and bear coupon interest from 2.550% to 3.375% p.a. Bonds of Republic of Slovakia are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities from 2024 to 2038 and bear coupon interest from 0.625% to 3.375% p.a. Bonds of Republic of Slovenia are fixed income debt securities denominated in EUR and listed on stock exchanges. These bonds have maturities from 2024 to 2035 and bear coupon interest from 1.500% to 5.250% p.a. Bonds of United States of America are fixed income debt securities denominated in USD and listed on stock exchanges. These bonds have maturities from 2028 to 2031 and bear coupon interest from 0.750% to 3.125% p.a.

Also, in financial assets at fair value through other comprehensive income are bonds issued by European investment Bank with maturity from 2024 to 2025 and with coupon interest from 0.625 to 3.250% p.a., bond issued by IBRD denominated in USD with maturity in 2024 and bears coupon interest of 1.500% p.a. and also bonds issued by KfW Bank denominated in USD with maturities from 2024 to 2025 and with coupon interest from 1.375% to 2.000% p.a.

Financial assets at fair value through other comprehensive income are measured at fair value based on quoted prices. In circumstances where quoted market prices are not readily available, the fair value of these securities is estimated using the present value of future cash flows.

Financial instruments – other disclosure matters

21. Fair value of assets and liabilities

Fair values of financial instruments

The measurement of fair value at the Group is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid Over-The-Counter (OTC) bonds.

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgement is required to establish fair values. Disclosures on valuation models, the fair value hierarchy and fair values of financial instruments can be found subsequently.

All financial instruments are measured at fair value on recurring basis.

Financial instruments measured at fair value in the statement of financial position

Description of the valuation models and inputs

The Group uses valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently. In case of the negative interest environment the Group uses models which are able to deal sufficiently with the presented market conditions. Consequently, such negative interest rates do not restrict the valuation models.

Debt securities

For plain vanilla (fixed and floating) debt securities the fair value is calculated by discounting the future cash-flows using a discounting curve depending on the interest rate for the respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available, the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option like features such as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash-flow models and more sophisticated modelling techniques including methods described for OTC-derivatives.

Equity instruments

For non-trading equity instruments which do not have quoted market prices in an active market the fair value is determined by standard valuation models using also unobservable input parameters. These models include the adjusted net asset value method, the simplified income ap-proach, the dividend discount model and the comparable company multiple method.

The adjusted net asset method requires an investor to measure the fair value of the individual assets and liabilities recognized in an investee's statement of financial position as well as the fair value of any unrecognized assets and liabilities at the measurement date. The resulting fair values of the recognized and unrecognized assets and liabilities should therefore represent the fair value of the investee's equity.

The dividend discount model assumes that the price of equity instruments issued by an entity equals the present value of all its expected future dividends in perpetuity. Similar to the dividend discount model, the simplified income approach estimates the fair value based on the future income. However, it can be used also when only one year planned income is available. The simplified income approach and the dividend discount model discount future income and dividends using the cost of equity. The cost of equity is dependent on the risk-free rate, the market risk premium, the levered beta and the country risk premium. The levered beta is derived from the industry classification which is published and maintained by Damodaran.

21. Fair value of assets and liabilities (continued)

In some cases, techniques for non-trading equity instruments may also include comparable company multiple methods. These are valuation techniques that use prices and other relevant information generated by market transactions involving comparable company peers of an investee to derive a valuation multiple from which the indicated fair value of the investee's equity or enterprise value can be inferred.

OTC-derivative financial instruments

Derivative instruments traded in liquid markets are valued by standard valuation models.

The Group values derivatives at mid-market levels. To reflect the potential bid-ask-spread of the relevant positions an adjustment based on market liquidity is performed. The adjustment parameters depend on product type, currency, maturity and notional size. Parameters are reviewed on a regular basis or in case of significant market moves. Netting is not applied when determining the bid-ask-spread adjustments.

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC derivatives.

According to the described methodology the amount of cumulative CVA-adjustment was EUR 674 thousand as at 31 December 2023 (2022: EUR 52 thousand) and the total amount of DVA-adjustment amount was EUR 857 thousand as at 31 December 2023 (2022: EUR 1,080 thousand).

Validation and control

The responsibility for valuation of a position measured at fair value is independent from trading units. Additionally, the Group has implemented an independent validation function in order to ensure separation between units responsible for model development, fair value determination and validation. The target of independent model validation is to evaluate model risks arising from the models' theoretical foundation, the appropriateness of input data (market data) and model calibration.

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are categorized under the three levels of the IFRS fair value hierarchy.

Level 1 of the fair value hierarchy

Level 1 measurement includes shares, government bonds as well as other bonds and funds, which are traded in highly liquid and active markets.

21. Fair value of assets and liabilities (continued)

Level 2 of the fair value hierarchy

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as Level 2. If no market prices are available, the fair value is measured by using valuation models which are based on observable market data. For Level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

Level 2 measurement includes OTC derivatives, theoretically priced exchange traded derivatives less liquid shares, bonds, funds and own issues.

Level 3 of the fair value hierarchy

If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as Level 3 of the fair value hierarchy. For Level 3 valuations , typically credit spreads are used as unobservable parameters. Furthermore, internally calculated cost of equity and adjustments made on the equity (in the adjusted net asset value method) are unobservable parameters for the valuation of non-trading equity instruments.

Level 3 measurement includes shares, participations and funds not quoted in an active market, illiquid bonds.

The allocation of positions to levels and any changes between the levels are reflected at the end of the reporting period.

A reclassification from Level 1 into Level 2 or Level 3 and vice versa will be performed if the financial instruments no longer meet the criteria described above for the respective level.

The table below shows the classification of financial instruments carried at fair value with respect to levels of fair value hierarchy.

								GROUP
	2022				2023			
in EUR million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets HFT	-	26	-	26	-	21	2	23
Derivatives	-	26	-	26	-	21	2	23
Non-trading financial assets – FVPL	4	-	4	8	2	-	5	7
Equity instruments	2	-	1	3	-	-	1	1
Debt securities	2	-	3	5	2	-	4	6
Financial assets – FVOCI	906	299	12	1,217	902	178	13	1,093
Equity instruments	-	-	1	1	-	-	-	-
Debt securities	906	299	11	1,216	902	178	13	1,093
Total assets	**910**	**325**	**16**	**1,251**	**904**	**199**	**20**	**1,123**
Liabilities								
Financial liabilities HFT	-	23	-	23	-	21	-	21
Derivatives	-	23	-	23	-	21	-	21
Total liabilities	**-**	**23**	**-**	**23**	**-**	**21**	**-**	**21**

21. Fair value of assets and liabilities (continued)

								BANK
	2022				2023			
in EUR million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Financial assets HFT	-	26	-	26	-	21	2	23
Derivatives	-	26	-	26	-	21	2	23
Non-trading financial assets – FVPL	4	-	4	8	2	-	5	7
Equity instruments	2	-	1	3	-	-	1	1
Debt securities	2	-	3	5	2	-	4	6
Financial assets – FVOCI	865	299	3	1,167	858	178	3	1,039
Equity instruments	-	-	1	1	-	-	-	-
Debt securities	865	299	2	1,166	858	178	3	1,039
Total assets	**869**	**325**	**7**	**1,201**	**860**	**199**	**10**	**1,069**
Liabilities								
Financial liabilities HFT	-	23	-	23	-	21	-	21
Derivatives	-	23	-	23	-	21	-	21
Total liabilities	**-**	**23**	**-**	**23**	**-**	**21**	**-**	**21**

Valuation process for financial instruments categorised as Level 3

The valuation of financial instruments categorised as Level 3 involves one or more significant inputs that are not directly observable on the market. Additional price verification steps need to be done. These may include reviewing relevant historical data and benchmarking to similar transactions, among others. This involves estimation and expert judgment. Further details regarding input parameters used and the results of the sensitivity analysis are disclosed in the sub-chapter Unobservable inputs and sensitivity analysis for Level 3 measurements below.

Transfer of Level 1 and Level 2

In 2023, there were no transfers between Levels 1 and 2 for recurring fair value measurements during the year for the Bank and for the Group. In 2022, government bonds measured at FVOCI were transferred from Level 1 to Level 2 in the amount of EUR 204 million for the Bank and for the Group, caused by changes in market activities and consequently due to the quality and observability of valuation parameters. There have been no transfers of financial assets measured at fair value from Level 2 to Level 1 in 2022.

21. Fair value of assets and liabilities (continued)

Movements in Level 3 of financial instruments carried at fair value

The following tables show the development of fair value of financial instruments for which valuation models are based on non-observable inputs:

GROUP

in EUR million	As of	Gain/(loss) in P&L	Gain/(loss) in OCI	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Settle-ments	Currency translation	As of
	Jan 2023									Dec 2023
Assets										
Financial assets held for trading	-	-	-	-	-	2	-	-	-	2
Derivatives	-	-	-	-	-	2	-	-	-	2
Non-trading financial assets – FVPL	4	1	-	-	-	-	-	-	-	5
Equity instruments	1	-	-	-	-	-	-	-	-	1
Debt securities	3	1	-	-	-	-	-	-	-	4
Financial assets – FVOCI	12	-	1	-	-	3	-	(3)	-	13
Equity instruments	1	-	-	-	-	-	-	(1)	-	-
Debt securities	11	-	1	-	-	3	-	(2)	-	13
Total assets	**16**	**1**	**1**	**-**	**-**	**5**	**-**	**(3)**	**-**	**20**

GROUP

in EUR million	As of	Gain/(loss) in P&L	Gain/(loss) in OCI	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Settle-ments	Currency translation	As of
	Jan 2022									Dec 2022
Assets										
Non-trading financial assets – FVPL	6	-	-	2	(2)	-	(2)	-	-	4
Equity instruments	1	-	-	2	-	-	(2)	-	-	1
Debt securities	5	-	-	-	(2)	-	-	-	-	3
Financial assets – FVOCI	50	1	(2)	-	(2)	-	(35)	-	-	12
Equity instruments	1	-	-	-	-	-	-	-	-	1
Debt securities	49	1	(2)	-	(2)	-	(35)	-	-	11
Total assets	**56**	**1**	**(2)**	**2**	**(4)**	**-**	**(37)**	**-**	**-**	**16**

BANK

in EUR million	As of	Gain/(loss) in P&L	Gain/(loss) in OCI	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Settle-ments	Merger	As of
	Jan 2023									Dec 2023
Assets										
Financial assets held for trading	-	-	-	-	-	2	-	-	-	2
Derivatives	-	-	-	-	-	2	-	-	-	2
Non-trading financial assets – FVPL	4	1	-	-	-	-	-	-	-	5
Equity instruments	1	-	-	-	-	-	-	-	-	1
Debt securities	3	1	-	-	-	-	-	-	-	4
Financial assets – FVOCI	3	-	-	-	-	3	-	(3)	-	3
Equity instruments	1	-	-	-	-	-	-	(1)	-	-
Debt securities	2	-	-	-	-	3	-	(2)	-	3
Total assets	**7**	**1**	**-**	**-**	**-**	**5**	**-**	**(3)**	**-**	**10**

21. Fair value of assets and liabilities (continued)

in EUR million	As of	Gain/(loss) in P&L	Gain/(loss) in OCI	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Settle-ments	Merger	As of
										BANK
	Jan 2022									Dec 2022
Assets										
Non-trading financial assets – FVPL	7	(1)	-	2	(2)	-	(2)	-	-	4
Equity instruments	2	(1)	-	2	-	-	(2)	-	-	1
Debt securities	5	-	-	-	(2)	-	-	-	-	3
Financial assets – FVOCI	40	1	(1)	-	(2)	-	(35)	-	-	3
Equity instruments	1	-	-	-	-	-	-	-	-	1
Debt securities	39	1	(1)	-	(2)	-	(35)	-	-	2
Total assets	**47**	**-**	**(1)**	**2**	**(4)**	**-**	**(37)**	**-**	**-**	**7**

Unobservable inputs and sensitivity analysis for level 3 measurements

In case the fair value of a financial asset is retrieved from input parameters which are not observable in the market, those parameters can be retrieved from a range of alternative parameters. For the preparation of the Statement of Financial Position the parameters were chosen to reflect the market situation at the reporting date.

The range of unobservable valuation parameters used in level 3 measurements is shown in the following table:

Financial assets	Type of instrument	Fair value	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average)
31 December 2023					**GROUP**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	13	Discounted cash flow	Credit spread	1.76% - 5.24% (3.40)
Financial assets at FVPL	Bonds and commercial papers	1	Discounted cash flow	Credit spread	1.76% - 5.24% (3.40)
		1	Valution mix: DCF model, market comparable companies	Beta relevered, Country risk premium	Beta relevered: 1.3, Country risk premium: Croatia 1.8 Serbia 2.7 Slovenia 0.8 BiH 3.9 Other 4.3
31 December 2022					**GROUP**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	11	Discounted cash flow	Credit spread	1.76% - 6.46% (3.52%)
Financial assets at FVOCI / at FVPL	Non-trading equity instruments (participations)	1	Dividend Discount Model	Beta relevered	Industry: Insurance (General) 1.09

21. Fair value of assets and liabilities (continued)

Financial assets	Type of instrument	Fair value	Valuation technique	Significant unobservable inputs	Range of unobservable inputs (weighted average)
31 December 2023					**BANK**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	3	Discounted cash flow	Credit spread	2.01% - 5.24% (4.55%)
Financial assets at FVPL	Bonds and commercial papers	1	Discounted cash flow	Credit spread	2.01% - 5.24% (4.55%)
		1	Valution mix: DCF model, market comparable companies	Beta relevered, Country risk premium	Beta relevered: 1.3, Country risk premium Croatia 1.8 Serbia 2.7 Slovenia 0.8 BiH 3.9 Other 4.3
31 December 2022					**BANK**
Financial assets at fair value through other comprehensive income	Bonds and commercial papers	1	Discounted cash flow	Credit spread	6.46%
Financial assets at FVOCI / at FVPL	Non-trading equity instruments (participations)	1	Dividend Discount Model	Beta relevered	Industry: Insurance (General) 1.09

For the remaining financial instruments in the amount of EUR 3 milion for the Group and for the Bank (2022: EUR 2 million for the Group and for the Bank) measured at fair value in Level 3, fair value is retrieved from observable input.

In estimating sensitivity impacts, mainly changes in credit spreads for bonds were considered. The ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis for debt securities range of credit spreads between +100 basis points and - 75 basis points. Effect in other comprehensive income for positive fair value change is EUR 0.23 million and for negative fair is EUR 0.31 million.

21. Fair value of assets and liabilities (continued)

Financial instruments not measured at fair value

The following table shows fair values and fair value hierarchy of financial instruments not measured at fair value for the year end 2023 and 2022.

					GROUP
2023	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
in EUR million					
ASSETS					
Financial assets at AC	10,357	10,173	1,462	283	8,428
Loans and advances to banks	68	65	-	-	65
Loans and advances to customers	8,486	8,363	-	-	8,363
Debt securities	1,803	1,745	1,462	283	-
Finance lease receivables	483	476	-	-	476
Trade and other receivables	170	239	-	-	239
LIABILITIES					
Financial liabilities measured at amortised costs	12,841	12,798	401	137	12,260
Deposits from banks	784	766	-	-	766
Deposits from customers	11,382	11,356	-	-	11,356
Debt securities issued	537	538	401	137	-
Other financial liabilities	138	138	-	-	138
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	-	8	-	-	8
Irrevocable commitments	-	29	-	-	29

					GROUP
2022	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
in EUR million					
ASSETS					
Financial assets at AC	9,430	8,762	833	366	7,563
Loans and advances to banks	384	356	-	-	356
Loans and advances to customers	7,716	7,207	-	-	7,207
Debt securities	1,330	1,199	833	366	-
Finance lease receivables	400	374	-	-	374
Trade and other receivables	172	161	-	-	161
	-	-	-	-	-
LIABILITIES	-	-	-	-	-
Financial liabilities measured at amortised costs	13,266	13,204	401	45	12,758
Deposits from banks	1,489	1,468	-	-	1,468
Deposits from customers	11,175	11,133	-	-	11,133
Debt securities issued	484	486	401	45	40
Other financial liabilities	118	117	-	-	117
	-	-	-	-	-
FINANCIAL GUARANTEES AND COMMITMENTS	-	-	-	-	-
Financial guarantees	-	7	-	-	7
Irrevocable commitments	-	12	-	-	12

21. Fair value of assets and liabilities (continued)

Financial instruments not measured at fair value (continued)

					BANK
2023	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
in EUR million					
ASSETS					
Financial assets at AC	9,620	9,451	1,420	283	7,748
Loans and advances to banks	31	30	-	-	30
Loans and advances to customers	7,832	7,718	-	-	7,718
Debt securities	1,757	1,703	1,420	283	-
Trade and other receivables	109	160	-	-	160
LIABILITIES					
Financial liabilities measured at amortised costs	11,678	11,648	401	137	11,110
Deposits from banks	308	301	-	-	301
Deposits from customers	10,781	10,757	-	-	10,757
Debt securities issued	537	538	401	137	-
Other financial liabilities	52	52	-	-	52
FINANCIAL GUARANTEES AND COMMITMENTS					
Financial guarantees	-	7	-	-	7
Irrevocable commitments	-	26	-	-	26

					BANK
2022	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
in EUR million					
ASSETS					
Financial assets at AC	8,743	8,126	800	366	6,960
Loans and advances to banks	345	321	-	-	321
Loans and advances to customers	7,108	6,639	-	-	6,639
Debt securities	1,290	1,166	800	366	-
Trade and other receivables	117	109	-	-	109
LIABILITIES					
Financial liabilities measured at amortised costs	12,212	12,159	401	45	11,713
Deposits from banks	1,016	1,002	-	-	1,002
Deposits from customers	10,673	10,632	-	-	10,632
Debt securities issued	484	486	401	45	40
Other financial liabilities	39	39	-	-	39
	-				
FINANCIAL GUARANTEES AND COMMITMENTS	-				
Financial guarantees	-	(33)	-	-	(33)
Irrevocable commitments	-	10	-	-	10

Carrying amount for Financial guarantees and Irrevocable commitments represents amount of fee recognized in Statement of financial position which is represented under Trade and other receivables.

The carrying amount of financial guarantees and irrevocable commitments approximates their fair value.

21. Fair value of assets and liabilities (continued)

The fair value of loans to and receivables from customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PDs and LGDs used for internal risk calculations. For the calculation of fair value loans and receivables were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of debt securities at amortised cost are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

The fair value of deposits and other liabilities, measured at amortised cost, is estimated by taking into account the current interest rate environment, as well as the own credit spread. For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortised cost is based on market prices or on observable market parameters, if these are available. For issued securities where fair value cannot be retrieved from quoted market prices, fair value is calculated by discounting the future cash flows. The applied discount rate is based on the interest rates at which instruments with comparable characteristics could have been issued at the balance sheet date. Moreover, optionality is taken into account when calculating the fair value.

The fair value of off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) is estimated using the regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets.

22. Offsetting of financial instruments

The following table shows netting effects on the balance sheet of Erste Group as well as the impacts of offsetting financial instruments which are subject to offsetting agreements.

Financial assets and liabilities subject to offsetting and potential offsetting agreements in 2023

GROUP							
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in EUR million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Assets							
Derivatives	23	-	23	(2)	(18)	-	3
Reverse repurchase agreements	10	-	10	-	-	(10)	-
Total	**33**	**-**	**33**	**(2)**	**(18)**	**(10)**	**3**
Liabilities							
Derivatives	21	-	21	(2)	(3)	-	16
Repurchase agreements	81	-	81	-	-	(81)	-
Total	**102**	**-**	**102**	**(2)**	**(3)**	**(81)**	**16**

BANK							
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in EUR million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Assets							
Derivatives	23	-	23	(2)	(18)	-	3
Reverse repurchase agreements	10	-	10	-	-	(10)	-
Total	**33**	**-**	**33**	**(2)**	**(18)**	**(10)**	**3**
Liabilities							
Derivatives	21	-	21	(2)	(3)	-	16
Repurchase agreements	81	-	81	-	-	(81)	-
Total	**102**	**-**	**102**	**(2)**	**(3)**	**(81)**	**16**

22. Offsetting of financial instruments (continued)

Financial assets and liabilities subject to offsetting and potential offsetting agreements in 2022

							GROUP
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in EUR million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Assets							
Derivatives	26	-	26	(1)	-	-	25
Reverse repurchase agreements	7	-	7	-	-	(7)	-
Total	**33**	**-**	**33**	**(1)**	**-**	**(7)**	**25**
Liabilities							
Derivatives	23	-	23	(1)	(1)	-	21
Repurchase agreements	603	-	603	-	-	(588)	15
Total	**626**	**-**	**626**	**(1)**	**(1)**	**(588)**	**36**

							BANK
				Potential effects of netting agreements not qualifying for statement of financial position offsetting			
in EUR million	Gross amounts in statement of financial position	Amounts set off against financial liabilities	Net amounts in statement of financial position	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Assets							
Derivatives	26	-	26	(1)	-	-	25
Reverse repurchase agreements	7	-	7	-	-	(7)	-
Total	**33**	**-**	**33**	**(1)**	**-**	**(7)**	**25**
Liabilities							
Derivatives	23	-	23	(1)	(1)	-	21
Repurchase agreements	603	-	603	-	-	(588)	15
Total	**626**	**-**	**626**	**(1)**	**(1)**	**(588)**	**36**

22. Offsetting of financial instruments (continued)

The Bank uses repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements. Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all the contracts in the event of default of any counterparty. For derivatives transactions the values of assets and liabilities which would be set off as a result of master netting agreements are presented in the column ‘Financial instruments’.
Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a preagreed price and time. This ensures that the securities remain in hands of lender as collateral in case the borrower defaults on fulfilling any of its obligations. Offsetting effects resulting from repurchase agreements are presented in the column ‘Non-cash financial collateral received/pledged’ respectively. Collateral is presented at fair value of the transferred securities. However, if fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral. Cash and non-cash financial collateral involved in these transactions is restricted from using it by the transferor during the time of the pledge. For further details regarding repurchase and reverse repurchase transactions refer to Note 23 Transfers of financial assets – repurchase transactions and securities lending.

23. Transfers of financial assets – repurchase transactions and securities lending

Repurchase and reverse repurchase agreements

A repurchase agreement is characterized by a sale and an obligation or right to repurchase the asset whereas the repurchase price has already been agreed at the time of contract conclusion.

The corresponding cash received is recognised on the balance sheet with a corresponding obligation to return it, under the line item 'Financial liabilities measured at amortised cost', sub-items 'Deposits from banks' or 'Deposits from customers' reflecting the transaction's economic substance as a loan to the Group.
Financial assets that are subject of a repurchase transaction shall not cease to be recognised as the Group retains all rights and benefits of ownership of those assets and are reported in accordance with the accounting policy, depending on the category of measurement into which it was initially classified.The difference between the sale and repurchase prices is accrued over the life of the agreement and recognised as interest expense in profit or loss, reported in the line item 'Interest expenses' under 'Net interest income' in the statement of profit or loss.
Any income (coupon or dividend payment) on the underlying security received by the buyer during the period of the repo transaction is passed on to the Group.

A reverse repurchase agreement covers transactions in which the Group places its funds to a counterparty and accepts financial assets as collateral.The consideration paid is recognised on the balance sheet under the line item 'Financial assets at amortised cost', sub-items 'Loans and advances to banks' and 'Loans and advances to customers' reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale price is accrued over the life of the agreement and recognised as interest income, reported in the statement of profit or loss in the line item 'Interest income' under 'Net interest income'.

	GROUP			
in EUR million	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
	2022		2023	
Repurchase agreements				
Financial assets at AC	365	360	4	4
Financial assets at FVOCI	228	243	82	77
Total – repurchase agreements	**593**	**603**	**86**	**81**

	BANK			
in EUR million	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
	2022		2023	
Repurchase agreements				
Financial assets at AC	365	360	4	4
Financial assets at FVOCI	228	243	82	77
Total – repurchase agreements	**593**	**603**	**86**	**81**

The transferred financial instruments consist of bonds.

The total amount of EUR 86 million (2022: EUR 593 million) for the Group and for the Bank represent the carrying amount of financial assets in the respective statement of financial position items for which the transferee has a right to sell or repledge.

Liabilities from repo transactions, which are measured at amortised cost, in the amount of EUR 81 million in 2023 (2022: EUR 603 million) for the Group and for the Bank represent an obligation to repay the borrowed funds.

23. Transfers of financial assets – repurchase transactions and securities lending (continued)

The following table shows the fair values of the transferred assets and associated liabilities that have recourse only on the transferred assets. In the Group and the Bank, these assets and liabilities relate to repo transactions.

						GROUP
in EUR million	Fair value of transferred assets	Fair value of associated liabilities	Net position	Fair value of transferred assets	Fair value of associated liabilities	Net position
		2022			2023	
Financial assets at AC	365	360	5	4	4	-
Financial assets at FVOCI	228	243	(15)	82	77	5
Total	**593**	**603**	**(10)**	**86**	**81**	**5**

						BANK
in EUR million	Fair value of transferred assets	Fair value of associated liabilities	Net position	Fair value of transferred assets	Fair value of associated liabilities	Net position
		2022			2023	
Financial assets at AC	365	360	5	4	4	-
Financial assets at FVOCI	228	243	(15)	82	77	5
Total	**593**	**603**	**(10)**	**86**	**81**	**5**

24. Financial assets pledged as collateral

The following financial assets were pledged as collaterals:

	GROUP		BANK	
in EUR million	2022	2023	2022	2023
Financial assets at amortised cost	543	106	543	106
of which debt securities	370	11	370	11
Financial assets at FVOCI	228	82	228	82
Total	**771**	**188**	**771**	**188**

The financial assets pledged as collateral consist of bonds and loans.
Collaterals were pledged as a result of repo transactions and collateralised deposits.

The fair value of collateral received which may be repledged or resold even without the collateral provider's default was EUR 12 million for the Group and for the Bank (2022: EUR 9 million for the Group and for the Bank).

As of 31 December 2022 the Bank had allocated financial insurance in amount of EUR 313 million for the purpose of frontloading of euro cash which has been reclaimed in 2023, after the euro introduction proces was finished.

25. Securities

										GROUP
	Financial assets					Financial assets				
	At AC	Trading assets	Mandatorily at FVPL	At FVOCI	Total	At AC	Trading assets	Mandatorily at FVPL	At FVOCI	Total
in EUR million					2022					2023
Bonds and other interest-bearing securities	**1,330**	**-**	**5**	**1,216**	**2,551**	**1,803**	**-**	**6**	**1,093**	**2,902**
Listed	1,330	-	1	1,213	2,544	1,803	-	1	1,092	2,896
Unlisted	-	-	4	3	7	-	-	5	1	6
Equity-related securities	**-**	**-**	**3**	**1**	**4**	**-**	**-**	**1**	**-**	**1**
Unlisted	-	-	3	1	4	-	-	1	-	1
Equity holdings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**1,330**	**-**	**8**	**1,217**	**2,555**	**1,803**	**-**	**7**	**1,093**	**2,903**

										BANK
	Financial assets					Financial assets				
	At AC	Trading assets	Mandatorily at FVPL	At FVOCI	Total	At AC	Trading assets	Mandatorily at FVPL	At FVOCI	Total
in EUR million					2022					2023
Bonds and other interest-bearing securities	**1,290**	**-**	**5**	**1,166**	**2,461**	**1,757**	**-**	**6**	**1,039**	**2,802**
Listed	1,290	-	1	1,163	2,454	1,757	-	1	1,038	2,796
Unlisted	-	-	4	3	7	-	-	5	1	6
Equity-related securities	**-**	**-**	**3**	**1**	**4**	**-**	**-**	**1**	**-**	**1**
Unlisted	-	-	3	1	4	-	-	1	-	1
Equity holdings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**1,290**	**-**	**8**	**1,167**	**2,465**	**1,757**	**-**	**7**	**1,039**	**2,803**

Investment funds units are reported within bonds and other interest bearing securities.

Securities lending and repurchase transactions are disclosed in Note 23. Transfers of financial assets-repurchase transactions and securities lending.

Risk management

26. Risk management

Risk policy and strategy

It is a core function of every bank to take risks in a conscious and selective manner and to manage such risks professionally. The Group's proactive risk policy and strategy aims at achieving balanced risk and return in order to generate a sustainable and adequate return on equity.

The Group uses a risk management and control system that is proactive and tailored to its business and risk profile. It is based on a clear risk strategy that is consistent with the Group's business strategy and focused on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, the Bank's risk management and control systems have been developed to fulfil external and, in particular, regulatory requirements.

Given the Bank's business strategy, the key risks for the Bank are credit risk, market risk, liquidity risk, and operational risk. The Bank also focuses on managing macroeconomic risks as well as concentrations within and across risk types. In addition, the Bank's control and risk management framework takes into account a range of other significant risks faced by the banking Group. The Bank always seeks to enhance and complement existing methods and processes, in all areas of risk management.

Risk management organisation

Risk monitoring and control is achieved through a clear organisational structure with defined roles and responsibilities, delegated authorities and risk limits.

Overview of risk management structure

The Management Board, and in particular the Bank's Chief Risk Officer (CRO), must perform its oversight function within the Bank's risk management structure. Risk control and management functions within the Bank are performed based on the business and risk appetite approved by the Management Board. The CRO is responsible for the implementation of and adherence to the risk control and risk management strategies across all risk types and business lines.

The Management Board and, in particular, the CRO ensure the availability of appropriate infrastructure and staff as well as methods, standards and processes to that effect. The actual identification, measurement, assessment, approval, monitoring, steering and limit setting for the relevant risks are performed at the operating entity level within the Bank.

The Management Board is supported by several divisions established to perform risk management function and exercise strategic risk management responsibilities.

The following risk management functions report directly to the CRO:
- Credit Risk Management Division
- Risk Management Division
- Non-Financial Risk Division.

26. Risk management (continued)

Risk management organization (continued)

Corporate Credit Risk Management Department

The Corporate Risk Management Department within the Credit Risk Management Division implements credit risk management and monitors the balance of credit portfolios of clients that are categorized as belonging to the SME Division, Large Corporate Division, and according to the responsibilities set out in the relevant acts.

The Department analyses credit applications and based on them, issues opinion on the credit risk from the risk perspective. It analyses the projects and evaluates its eligibility for financing from the risk perspective. It also performs an analysis of the Bank's/Group's overall exposure to the client/group of connected customers, monitors early warning signals and controls early collection. According to financial statements the Department prepares financial rating of a client as one of the components of final rating grade of a client.

Retail Credit Risk Management Department

Retail Risk Management Department within the Credit Risk Management Division manages credit risk and monitors the credit portfolio balance of clients from the Retail Sector. The Department analyses requests for credits and issues an opinion on them from the risk perspective. It performs an analysis of the projects and evaluates its eligibility for financing from the risk perspective. It also performs an analysis of the Bank's overall exposure to the client.

The Department follows Group standards within its scope, coordinates and creates local policies and procedures and monitors their fulfilment. The Department is responsible for organization of early collection process for retail clients as well as review of portfolio quality, in accordance with relevant acts.

Credit Risk Monitoring Department

Credit risk monitoring Department within the Credit Risk Management Division maintains and improves the credit process and its tools and applications for approving and monitoring of credit applications and as well as monitoring of overall exposure on product, client or portfolio level. The Department is responsible for defining rules for approval of credit exposure, approval and deviation analysis, approval competences, covenant monitoring, also maintenance and improvement of early warning signals system, set up and monitoring of limit utilization, system and rules for onboarding procedure of group of connected clients, early and late collection system.

The Department follows Group and regulatory standards within its scope of credit risk in corporate, retail and workout processes, initiates, coordinates and creates local policies and procedures and monitors their fulfilment in Bank and its subsidiaries. Also, the Department analyses portfolio and creates reports primarily for internal purposes.

Corporate Workout Department and Retail Workout Department

Corporate Workout Department and Retail Work-out Department within the Credit Risk Management Division, which follow the business lines in the sales sectors, are in charge of managing and collection of non-performing exposure by means of a continuous and systematic development of solutions to eliminate and reduce risks in dealing with work-out clients. They define appropriate collection strategies toward cliens or selected portfolios through distress restructurings or late collection process including enforcement, pre-bancruptcy and bankruptcy proceedings, debt sale, debt settlements, write-offs or collection through repossessed asset. In line with expected collection and given methodology are responsible for Stage 3 provision calculation.

26. Risk management (continued)

Risk management organization (continued)

Risk Strategy and Reporting Department

The Risk Strategy and Reporting Department within the Risk Management Division takes part in the process of planning the activities of the Group and the Bank from the risk management point of view. It monitors the execution of risk management-related planned and strategically determined goals and plans, both of the Group and the Bank. The Department monitors risk-related regulatory changes and group standards, initiates, coordinates and creates policies and other procedure, and monitors their fulfilment, all within its scope of activities prescribed by other acts. The Department adopts policies and procedures that define collateral acceptability and valuation standards and evaluates their implementation. Also performs the analysis of the structure and quality of portfolios, and prepares reports on the structure and quality of portfolios.

It proposes guidelines for the optimization of accepted risks, in order to improve certain exposure classes, ratings and collaterals. The Department also executes and creates reports related to credit risk with the prescribed dynamics, in compliance with legal regulations and standards of the Group and the Bank. The Risk Strategy and Reporting Department, together with other departments and Bank organisational units, actively participates in the process of managing data quality and evaluating the adequacy of internal control systems.

Quantitative Research Department

Quantitative Research Department (QRD) within the Risk Management Division is responsible for implementation of Basel standards, regulatory requirements and guidelines, as well as Erste Group standards with respect to internal rating-based approach for calculation of capital requirements for credit risk and enterprise-wide risk management.

QRD introduces, coordinates the development and participates in development, implementation and monitoring of different types of quantitative models as well as calculation of credit risk parameters which are used for measurement, segmentation and management of credit risks in line with best practice and group standards as well as implementation in the Bank's processes (including constant enhancement of business processes connected with above mentioned calculations). This includes IRB models and IFRS9 methodology. QRD is responsible for efficiency of implemented models and performs calibration and participates in calibration of models in line with Erste Group principles and participates in validation of the same in collaboration with Erste Group. QRD also reports about the parameters and models and performs modelling of macroeconomic impact on risk models and Bank business as a whole.

QRD strives to achieve holistic approach in managing risks through enterprise-wide risk management. By defining risk strategy and Risk Appetite Statement which includes all risk departments, a framework for responsible and prudent risk taking is ensured. Enterprise-wide risk management encompasses Internal Capital Adequacy Assessment Process (ICAAP) which includes the identification of risks to which the Bank/EBC Group is exposed or might be exposed in the future and the assessment of economic capital adequacy. Identification of risks is performed through risk materiality assessment, concentration risk analysis and stress testing. Material risks are managed through calculation of regulatory and internal capital requirements and through the limit and control systems. QRD calculates the economic capital adequacy on a quarterly basis, i.e. coverage of internal capital requirements, for relevant risks, with internal capital. In addition, through enterprise-wide risk management QRD plans and manages the risk weighted assets, and participates in determination of price for different products using Expected Risk Margin (ERM) and cost of capital, participates in the process of profitability modelling, business model development and risk cost planning.

QRD is also responsible for the creation of the Recovery and Resolution Plan of EBC Group and participates in capital management within its field of responsibility.

26. Risk management (continued)

Risk management organization (continued)

Market and Liquidity Risk Management Department

Market and Liquidity Risk Management Department within the Risk Management Division, within the scope of its authority, performs all tasks necessary for market and liquidity risk management in compliance with the rulebooks and procedures related to its scope of authority.

It performs the analysis of the complex market situation, identifies and measures both market and liquidity risks and their parameters. Apart from the above-mentioned activities, the Department is also in charge of the implementation of the Basel II guidelines; it establishes measures for the reduction of risks within the scope of its authority and participates in the process of approving new products of the Financial Markets and Investment Banking Division. It also collaborates with other organizational units with the purpose of improving the quality of market and liquidity risk management.

Non-financial Risk Management Division

The Non-financial Risk Management Division is responsible for compliance monitoring, financial crime management, which includes anti-fraud, anti-money laundering and countering international financial terrorism, as well as operational and ICT risk management. The Division consists of Compliance Group, Financial Crime Group and Operational and ICT Risk Management Group. The aim of Operational and ICT Risk Management Group is to control all organizational units and business processes within the Bank, having in mind that operational risk is characteristic to all activities, processes, products and Bank's systems based on defined Bank's risk profile, particularities of business environment and regulatory requests. It collaborates with other organizational units with the purpose of improvement the quality of managing operational risk. In adition, Group acts as an independent risk governance and control function for ICT risk.

Group-wide risk management

Overview

Enterprise wide Risk Management (ERM) includes as its fundamental component the Internal Capital Adequacy Assessment Process (ICAAP) as required under Pillar 2 of the Basel framework and regulatory guides (e.g. ECB Guide to ICAAP).

The ERM framework is designed to support the bank's management in managing the risk portfolios as well as coverage potential and to ensure that the bank holds adequate capital for the nature and magnitude of its risk profile at all times. The framework is tailored to the business and risk profile of the Bank, and reflects the strategic goal of protecting shareholders and senior debt holders while ensuring sustainability of the Bank/EBC Group.

ERM framework is a modular and comprehensive management and steering system as well as an essential part of the overall steering and management instruments. The ERM components necessary to ensure all aspects, in particular to fulfill regulatory requirements and to provide an effective internal steering tool, can be clustered as follows:

- Risk appetite statement (RAS), limits and risk strategy;
- Portfolio and risk analysis through Risk materiality assessment (RMA), Concentration risk management and Stress testing;
- Risk-bearing capacity calculation (RCC);
- Capital allocation and performance management;
- Planning of key risk indicators;
- Recovery and resolution planning.

In addition, ERM department participates in the Capital Management Team with a purpose to maintain the appropriate quantity and quality of capital to support planned operations, while at the same time ensuring that regulatory requirements as well as investors' and stakeholders expectations are fully met. Capital is managed to maintain financial strength, absorb losses so as to withstand adverse economic conditions, allow for growth opportunities and meet risk management and business objectives.

In addition to the ICAAP's ultimate goal of assuring capital adequacy and sustainability at all times, the ERM components serve to support the Bank's/EBC Group's management in pursuing its strategy.

26. Risk management (continued)

Group-wide risk management (continued)

Risk Appetite Statement (RAS)

Risk appetite defines the maximum level of risk EBC Group is willing to accept in pursuing its business goals. The overall approach includes a risk appetite statement, risk limits, and the roles and responsibilities of those overseeing the implementation and monitoring of the risk appetite framework. Limit framework (i.e. risk appetite framework) of EBC Group includes risk limits set in Risk Appetite Statement and Risk Strategy, industry limits,maximum lending limits and operational limits.

The EBC Group Risk Appetite Statement (RAS) represents a strategic statement that expresses the maximum level of risk that the EBC Group is willing to accept in order to deliver its business objectives. The Group RAS acts as a binding constraint to EBC Group’s business activities within its overall risk appetite via triggers and limits approved by the management board, the risk committee of supervisory board and the supervisory board. It is integrated and embedded into EBC Group’s structural processes; including business and risk strategy, budgeting process, capital and liquidity planning, recovery plan, stress testing and remuneration framework. The EBC Group RAS consists of a set of core risk metrics (capital, liquidity, risk/earnings) providing quantitative direction for overall risk-return steering and qualitative statements in the form of key risk principles that are part of the guidelines for managing risks.

The core risk metrics are set as ultimate boundaries for the risk-return target setting. They are also a key part of the annual strategic planning / budgeting process and give an overall picture of capital, liquidity and risk-return trade-offs. The key objective of the EBC Group RAS is to:

- ensure that EBC Group has sufficient resources to support its business at any given point in time and absorb stress events;
- sets the boundary for the EBC Group’ risk target setting;
- support the group’s financial strength and the robustness of its systems and controls.

To foster risk-return steering and ensure proactive management of the risk profile, ESB Group creates its RAS on a forward-looking basis. External constraints such as regulatory requirements create the floor and ceiling for the RAS and therefore the amount of risk EBC Group is willing to accept. In order to ensure that the group remains within the targeted risk profile, a traffic light system was established and assigned to the core metrics. This approach allows a timely delivery of information to the respective governance and the implementation of effective remediation measures. The RAS traffic light system is defined as follows:

- RAS is green: The target risk profile is within the specified boundaries.
- RAS is amber: The undershooting or overshooting of a pre-defined threshold leads to an escalation to the designated governance and the discussion of potential remediation actions.
- RAS is red: The undershooting or overshooting of a pre-defined limit initiates an immediate escalation to the designated governance and a prompt implementation of remediation actions.

Moreover, stress indicators are defined for selected core metrics and integrated into the assessment of the stress test results. They are reported as early warning signals to the management board to support proactive management of the risk and capital profile.

In addition, supporting metrics and principles are defined by material risk type in the EBC Group Risk Strategy based on EBC Group RAS. These support implementation of the mid- to long-term strategy. Risk management governance ensures full oversight of risk decisions and sound execution of the EBC Group risk strategy. Mitigating actions are undertaken as part of the regular risk management process to ensure that the EBC Group remains within its RAS.

EBC Group RAS is also cascaded to local entities. Local RAS is approved by the management board to ensure compliance with the EBC Group RAS and also approved by the local management board to ensure alignment with local regulatory requirements. The EBC Group may also decide to include further compulsory constraints and limits in local RAS to ensure alignment with EBC Group RAS and EBC Group Risk Strategy.

EBC Group RAS 2023 was approved by the management board, risk committee of the supervisory board and the supervisory board in the first quarter of 2023.

26. Risk management (continued)

Group-wide risk management (continued)

ESG risks are embedded in the risk strategy and are also part of EBC Group's Risk Materiality Assessments. They are integrated into EBC Group's risk taxonomy as transversal risks (risk types that have impact and are reflected through more than one key risk category) and are included in the relevant risk categories credit, market, liquidity and operational risk. EBC Group's definition of ESG risk is part of the Group ICAAP guideline and covers a wide range of risks arising from environmental, social and governance factors.

Portfolio and risk analytics

EBC Group uses dedicated infrastructure, systems and processes to actively identify, measure, control, report and manage risks within its portfolio. Portfolio and risk analytics processes are designed to quantify, qualify and discuss risks in order to raise awareness to management in a timely manner.

Risk Materiality Assessment

The **risk materiality assessment** (RMA) determines the materiality of risk types and consequently the risk profile across the Bank and its entities. RMA is an annual process with the purpose of systematically identifying new and assessing all existing risks for EBC Group. Senior management may require to perform RMA on ad hoc basis in addition, in order to address changing operating environment or emerging risks (e.g. interim RMA performed in H1-22 due to Russia-Ukraine conflict). As such, the RMA is an integral part of the ICAAP and serves as a steering tool for senior management.

ESG risks and their materiality keep being assessed within existing risk types. The criteria for assessing physical and transitory risks were further enhanced in the most recent RMA.

Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the EBC Group. The assessment also serves as input for the design and definition of the EBC Group's risk strategy and Risk Appetite Statement. Key outputs and recommendations of the RMA are considered in the scenario design and selection of the comprehensive and reverse stress tests.

Risk concentration analysis

EBC Group has implemented a process to identify measure, control and manage risk concentrations. This process is important to ensure the long-term viability of EBC Group, especially in times of an adverse business environment and stressed economic conditions.

The risk concentration analysis at EBC Group is performed on an annual basis covering credit risk, market risk, operational risk, liquidity risk and inter-risk concentrations. Identified risk concentrations are considered in the scenario design of the comprehensive stress test and measured under stressed conditions. The output of the risk concentration analysis additionally contributes to the identification of material risks within the RMA and to the setting/calibration of EBC Group's limit system.

Insights generated by the assessment are used to improve risk management practices and further mitigate risks within the Group. The assessment also serves as input for the design and definition of the Group's risk strategy and Risk Appetite Statement. Key outputs and recommendations of the RMA are considered in the scenario design and selection of the comprehensive and reverse stress tests.

Stress testing

Modelling sensitivities of the ECB group's assets, liabilities and profit or loss provide management steering information and help to optimise EBC Group's risk-return profile. Stress tests help to factor in severe but plausible scenarios providing further robustness to measurement, steering and management. Risk modelling and stress testing are vital forward-looking elements of the ICAAP. Finally, sensitivities and stress scenarios are considered within the group's planning process.

26. Risk management (continued)

Group-wide risk management (continued)

EBC Group's most complex stress testing activities are scenario stress tests that take a comprehensive account of the impact of various economic scenarios, including second-round effects on all risk types (credit, market, liquidity and operational) and effects on the associated volumes of assets and liabilities as well as on profit and loss sensitivities. In addition to the standard scenario-driven stress testing exercises, reverse stress tests are performed to identify a scenario or a combination of scenarios in which viability of the current business model can be questioned.

EBC Group has developed specific tools to translate macroeconomic variables (e.g. GDP or unemployment rate) into risk parameters in order to support the stress testing process.

Risk-bearing Capacity Calculation

The Risk-bearing Capacity Calculation (RCC) describes the methodology of Pillar 2 capital adequacy calculation. In contrast to the normative (regulatory) view of Pillar 1, referring to the Group's ability to fulfil all of its capital-related regulatory and supervisory requirements and demands, the Risk-bearing Capacity Calculation (RCC) is based on an economic view of Pillar 1+ approach, assuming continuation of Erste Group as expected by the ECB Guide to ICAAP and determines whether the bank has sufficient capital for covering all (regulatory and economic) risks it is exposed to. Economic and normative perspectives at Erste Group are set in a way to mutually inform each other and are integrated into all material business steering activities and decisions. In addition, with applied Pillar 1+ approach the Group increases efficiency and ensures comparability with the Pillar 1 calculation. Based on the results of the RMA, the economic capital is considered for relevant risk types as approved by the management board. The economic capital requirement is then compared to internally available capital (coverage potential) to cover the Group's risks in Pillar 2. Both economic capital and coverage potential are computed on the CRR scope of consolidation of Erste Group as ultimate parent entity based on IFRS accounting standards.

Besides the Pillar 1 risk types (credit, market in trading book and operational risks), concentration risk, interest rate risk in the banking book, credit spread risk in the banking book as well as business risk are explicitly considered within the economic capital calculated over a horizon of one year and at a confidence level of 99.9%. For the calculation of the economic capital, EBC Group uses, where possible, more risk sensitive/advanced methodologies tailored to its individual risk profile and specificities of the individual risk exposures. Diversification effects between risks (inter-risk diversification) are not considered, reflecting the Group's prudent approach to maintain sufficient internal capital in times when correlations between risks may change dramatically (like in times of stress). The largest portion of economic capital requirements is coming from credit risk, which accounts for 75,71% of total economic capital requirements at the end of 2023.

The calculation of internal capital or coverage potential required to cover Pillar 2 risks/unexpected losses is based on Pillar 1+ ap-proach. Namely, CRR and CRR II (Regulation (EU) No. 575/2013 and Regulation (EU) No. 876/2019 amending Regulation (EU) No. 575/2013) regulatory own funds are adjusted by internal capital components, i.e. Pillar 2 adjustments, necessary to come to the internally available capital deemed as risk-bearing and loss absorbing from the economic view (e.g. exclusion of Additional Tier 1 and Tier 2 capital instruments, Pillar 2 IRB expected loss excess/shortfall add-on, year-to-date profit, if it is not already considered in Pillar 1 capital, etc.).

The coverage potential must be sufficient to absorb Pillar 2 risks/unexpected losses resulting from the Group's operations at any point in time (normal and stressed), as reflected in the Group's Risk Appetite through the limits set for Group economic capital adequacy and stressed capital adequacy utilisation. At the end of 2023, the economic capital adequacy was at 47.73%, fully in line with group RAS.

The management board and supervisory board (including risk committee of supervisory board) are briefed quarterly on the results of the ICAAP capital adequacy. The former includes risk profile developments, available capital (coverage potential), consideration of potential losses in stress situations, the degree of the risk limit utilisation and the overall status of capital adequacy. The latter outlines risk profile development in relation to risk appetite.

26. Risk management (continued)

Group-wide risk management (continued)

Risk planning and forecasting

EBC Group Risk Planning framework is essential for the capital allocation and overall financial planning processes and supports the adequate reflection of risks within the strategy, steering and management processes of the group.

Key risk indicators covered by the Risk Planning framework include indicators that provide an overview of incurred or potential risks, with respect to both portfolio and economic environment developments. Indicators include RWA (and related indicators), port-folio quality indicators (impairments, NPL/NPE and relevant performance indicators etc.), as well as indicators required by the regulatory authorities under the responsibility of the Risk division.

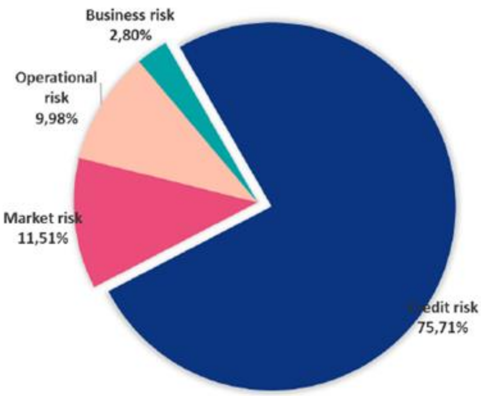
Planning activities are performed in close cooperation with all stakeholders in the group´s overall process and follow a clear governance structure to ensure sound risk planning process.

Capital allocation

An important task integral to the risk planning process is the allocation of capital to entities, business lines and segments. This is done with close cooperation between Risk Management and Controlling. Methodology for allocation reflects risk and controlling processes in order to allocate capital with risk-return considerations.

Erste Group's aggregate capital requirements by risk type

The following diagrams present the composition of the economic capital requirements according to type of risk:



Risk parameters and rating models

Internal specialist teams develop and continuously improve internal rating models and risk parameters in cooperation with risk managers. All Pillar 1 and 2, as well as IFRS9 models are subject of an annual review of their estimates, considering the inclusion of most recent data in the estimation of risk parameters, as well as a regular cycle of full model review. Model development follows an internal group-wide methodological standard and utilises relevant data covering the respective market. In this way, Erste Group ensures the availability of rating models with the best possible prediction and discriminatory ability across its core regions.

The new rating models for corporate-SME clients and Group Corporate and Group Large Corporates were approved by the regulator during 2022 and are implemented in January 2023.The PD parameters, used in RWA calculation, for Corporate segment including SME, Group Corporate and Group Large Corporates have been updated with the introduction of the new rating models. Additionally, the PDs for Sovereign portfolio have been updated in Q4 2023. The implementation of the new PD methodology is expected in Q1 2024. Regular LGD parameter update has been performed during 2023. In Q4 also regular update of IFRS9 parameters, as well as FLI update, has been performed.

26. Risk management (continued)

Group-wide risk management (continued)

Risk-weighted asset management

As risk weighted assets determine the actual regulatory capital requirement of the Bank/EBC Group and influence the capital ratio as a key performance indicator, particular emphasis is devoted to meeting targeted levels of RWA. Insights from monthly RWA analyses are used to improve the calculation infrastructure, the quality of input parameters and data, as well as the most efficient application of the Basel framework. The Bank has established a process of tracking, planning and defining target levels of RWA. The Bank's Management Board is regularly informed on the levels of RWA and adherence to the limits set within the Risk Appetite Statement (RAS).

Leverage ratio

The leverage ratio represents the relationship between core capital (Tier 1) and leverage exposure according to Article 429 CRR. Essentially, the leverage exposure represents the sum of unweighted on and off balance sheet positions considering valuation and risk adjustments as defined within the CRR. Management Board is informed on the level of leverage ratio for the Bank and EBC Group and on the adherence to defined limits and targets within the Risk Appetite Statement on a quarterly basis.

Recovery plan

In compliance with Act on the Resolution of Credit Institutions and Investment Firms, EBC Group Recovery Plan is submitted to Joint Supervisory Team (JST) as an annex to Erste Group Recovery Plan. The EBC Group Recovery Plan is regularly assessed by ECB and CNB. The EBC Group Recovery Plan identifies potential options for the replenishment of capital and liquidity resources of the bank in order to cope with a range of severe scenarios including both idiosyncratic and market-wide stress. The Recovery Framework is mainly reconciled with the Risk Appetite Framework across indicators and indicator thresholds, ensuring comprehensive enterprise-wide risk management. It is relevant to demonstrate that in a severe stress, which is close to a failing or likely to fail situation, there is sufficient recovery capacity available in order to be able to recover back into the recovery green zone. The recovery governance described in the plan ensures timely identification and proper management of a recovery situation of EBC Group. Furthermore, the assessment of the EBC Group Recovery Plan and the assessment of the overall recovery capacity are part of the Supervisory Review and Evaluation Process (SREP) assessment.

Resolution plan and MREL

The Bank collaborates with the resolution authorities in the drawing up of resolution plans based on Act on the Resolution of Credit Institutions and Investment Firms and EU Regulation No 806/2014 establishing the Single Resolution Mechanism (SRM Regulation).

The legislative framework allows for a multiple-point-of-entry (MPE) or a single-point-of-entry (SPE) resolution strategy. The Resolution Authorities formed a joint decision in the resolution college for Erste Group which defines the MPE approach forming six separate resolution groups with Erste Group's core CEE subsidiaries and Austria, but with SPE approaches within a country. This results in having resolution groups in AT, CZ, HR, HU, RO and SK. Under the MPE strategy, Erste Group has more than one Resolution Entity Level which is the entry point for resolution. The resolution plans (including resolution strategy and MREL decisions) are regularly updated by the Resolution Authorities and subject to Joint Decision formed in a resolution college by Resolution College Members.

The Bank Recovery and Resolution Directive (BRRD) introduced the Minimum Requirement for own funds and Eligible Liabilities (MREL). MREL notifications are provided by the national resolution authorities on the level of resolution groups and relevant individual subsidiaries of resolution entities, reflecting the resolution strategy, based on the MREL joint decision taken by the resolution college. MREL requirements are expressed as a percentage of the total risk exposure amount (TREA) as well as leverage ratio exposure (LRE).

In May 2023, Erste Group received the Joint Decision determining the minimum requirement for own funds and eligible liabilities for the resolution group in Croatia. The requirement is set including binding final requirements as of 1 January 2024. Information on MREL targets have been published on the Banks' website based on the legal notification released by the Croatian National Bank. MREL metric is integrated into the RAS and Recovery Framework of EBC Group.

27. Credit risk review and monitoring

ESG Risk Management

The Bank integrates ESG factors in its risk management and industry strategy framework. In the first place, the Erste Group ESG Factor Heatmap is used as a screening instrument to identify certain segments (out of the existing segmentation) that may be exposed to ESG risk factors and determine those industries which are more vulnerable to ESG risks. The Bank establishes industry strategies and lending standards to support the steering of the portfolio under considerations of ESG risks; both are the basis for decisions, which determine which clients and transactions fit into the Bank's portfolio.

Secondly, the Bank has established an ESG risk framework for the assessment of material ESG factors, related risks and appropriateness of the mitigating strategies in the credit and rating processes. In this manner, the Bank takes ESG risk criteria into account, when making credit decisions.

For large corporate, commercial real estate and commercial residential real estate transactions, the Bank conducts a systemic ESG analysis via an internal digital ESG Assessment questionnaire. The questionnaire is a mandatory prerequisite in the loan origination and monitoring process. By providing a comprehensive ESG risk assessment, the Bank is able to determine how certain ESG factors may have a positive or negative impact on the financial performance of clients. The questionnaire enables the Bank to identify clients' ESG risks or opportunities. Particular questions in the questionnaire may also require an in-depth assessment in order to understand the nature and severity of the ESG risks to which the client is exposed. The questionnaire forms an integral part of the credit application and is updated at least annually, allowing the Bank to understand the client's business model in the context of carbon transition. In 2023, and in line with Erste Group's decarbonization targets, we have introduced additional lending guidance for clients belonging to those specific industries, depending on their communicated strategy to align with climate science recommendations.

Furthermore, ESG relevant data is collected for certain types of collateral, as defined in the Collateral Management Policy for real estate collateral valuations, documentation and reporting purposes.

With regards to credit risk measurement and internal models a respective project to define and collect relevant climate risk drivers for all rating systems has started in 2022 in Erste Group to ensure the explicit consideration of climate risks in future model development initiatives. In 2023, ESG factors are considered in the soft facts assessment in the corporate rating models. Additionally, the Bank is in the process of analyses how the ESG risk can be incorporated into ECL measurement. As of 31 December 2023 no overlays are deemed necessary.

For the assessment and management of physical risks, Erste Group uses Munich Re's Location Risk Intelligence. Over the last year, Erste Group has conducted a physical risks materiality assessment together with the University of Graz in order to identify key hazards and climate change scenarios relevant for Erste Group collateral portfolio. The results of the assessment highlighted the importance of river flood, fire weather stress, drought stress, sea level rise and heat stress.

To assess the potential impact of physical risk, Erste Group internal stress test incorporated a newly developed physical risk model in 2023. The risk "river flood" was determined to be the most relevant risk for Erste Group applying the climate hazard scores provided by Munich Re on Erste Group collaterals.

Among the industries presented in the table "Credit risk exposure by industry and risk category" below in this chapter, Erste Group identified in the first step, as part of the strategic climate initiative for the Net Zero Banking Alliance, certain sectors (where Erste Group is exposed to high greenhouse gas emissions due to either the credit risk exposure or its emission intensity) as important levers for setting the interim emission targets for 2030, thereby supporting the migration of "transition risk" in Erste Group financed portfolio. Erste Group targets are set for the following sectors: housing mortgages, commercial real estate, electricity production, heat production, cement production, auto manufacturing, oil and gas, iron, and steel.

27. Credit risk review and monitoring (continued)

Methods of credit risk management

Credit risk arises in the Bank's traditional lending and investment businesses. It involves both credit losses incurred as a result of borrowers' default (stage 3) and expected credit losses (ECL) of non-defaulted borrowers calculated as 12-months ECL (stage 1) or calculated as lifetime expected credit losses (stage 2).

Operative credit decisions are made by the responsible credit risk management units.

With the goal of good risk management, all data relevant to credit risk management, performance management and determination of risk-weighted assets and the regulatory capital requirement are regularly input into central database used for credit risk management, while quality of data is regularly monitored. Therefore, departments within Risk Management regularly use this database for credit risk reporting thereby providing centralised analysis and application of ratios according to unified methods and segmentation across the Bank and the Group as a whole. The credit risk reporting comprises regular reports on credit portfolio for external and internal recipients and permits continuous monitoring of credit risk developments, thus enabling management to take control measures. In-house recipients of these reports include, above all, the Supervisory and Management Board as well as risk managers, Heads of business units and internal audit staff.

Internal rating system

The Bank has in place business and risk strategies, as well as policies for lending and credit approval processes that are reviewed and adjusted regularly, at minimum once per year. They cover the entire lending business, taking into account the nature, scope and risk level of the transactions and the counterparties involved. Credit approval is also based on the creditworthiness of the customer, the type of credit, collateral, covenant package and other risk mitigation factors involved.

The assessment of counterparty default risk within the Bank is based on the customer's probability of default (PD). For each credit exposure and lending decision, the Bank assigns an internal rating, which is a unique measure of the counterparty default risk. The internal rating of each customer is updated at least on an annual basis (annual rating review). Ratings of customers in weaker rating classes are reviewed with higher frequency.

Besides setting of the capital requirements, the main purpose of the internal ratings is to support the decision-making for lending and for the terms of credit facilities. Internal ratings also determine the level of decision-making authority within the Bank and the monitoring procedures for existing exposures. At a quantitative level, internal ratings drive the level of required risk pricing and risk allowances.

As mentioned before, internal ratings are the key element of the RWA calculation which is also used in the assessment of economic capital requirement according to Pillar 2 (ICAAP). PD values reflect the 12-month probability of default based on long-term average default rates. The Bank assigns margins of conservatism to the calculated PD depending on the granularity of portfolios and relevant data history. Calibration of PD values is validated annually in line with all the rating methods validations.

Internal ratings take into account all available essential information for the assessment of counterparty default risk. For non-retail borrowers, internal ratings take into account the financial strength of the counterparty, the possibility of external support and other company information. For retail clients, internal ratings are based mainly on behavioural and application scoring, but they also utilise demographic and financial information. Rating ceiling rules on credit quality are applied based on membership in a group of economically related entities and country of main economic activity.

All scorecards, both retail and non-retail, are regularly validated by the central validation unit based on Group-wide standard methodology. Validations are conducted using statistical techniques and the results of this validation process are reported to the management and regulatory bodies. The Bank complies with all Erste Group standards with respect to model development and maintenance process. All new models and modifications of existing models in the Group (rating models and risk parameters), as well as methodology standards, are reviewed by the respective organizational unit of Erste Holding which ensures Group-wide integrity and consistency of models and methodologies. Models are approved by Local Model Committee.

27. Credit risk review and monitoring (continued)

Credit risk classification

The classification of credit assets into risk grades is based on the Bank's internal ratings. The Bank uses two internal risk scales for risk classification: for customers that have not defaulted, a risk scale of 8 risk grades (for private individuals) and 13 risk grades (for all other segments) is used. Defaulted customers are classified into a separate risk grade.

For the purpose of external reporting, internal rating grades of the Bank are grouped into the following four risk categories:

Low risk: customers with well-established and rather long-standing relationships with the Bank and the Group or large internationally recognised customers. Clients with strong and good financial position and no foreseeable financial difficulties. Retail clients having long relationships with the Bank, or clients with a wide product pool use. No late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Management attention: customers that may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable payment problems in the past triggering early collection reminders.

Substandard: customers which are vulnerable to negative financial and economic developments and shows elevated probability of default.

Non-performing: customers who meet one or more of the default criteria according to Article 178 of Regulation (EU) No 575/2013 and Croatian National Bank bylaws, which are precisely defined by the Bank's internal documentation: full repayment unlikely, more than 90 days past due on a material exposure, restructuring resulting in a loss to the lender, realisation of a loan loss or initiation of bankruptcy proceedings. For purposes of analysing non-performing positions, the Bank applies the customer view for all customer segments, including Retail clients; if a customer defaults on one deal then the entire customer's performing transactions are classified as non-performing.

In the Bank, default status triggers the credit-impairment and the stage 3 classification under IFRS9 (with more details in subsection Impairment of financial instruments under IFRS 9). Default is recognized when:

- the obligor is past due 90 consecutive days with any material credit obligation to the institution, the parent undertaking or any of its subsidiaries in full; and/or
- the obligor is considered unlikely to pay its credit obligation to the institution, the parent undertaking or any of its subsidiaries, in full without realisation of the collateral.

Credit monitoring

In order to manage credit risk timely, regular analysis of client's risks which includes current rating status, repayment ability, revision of collaterals and compliance with the contracted terms, repayment and other clauses through re-approvals is performed.

The Bank's goal is to timely recognize any decrease in the quality of credit portfolio which may have material losses for the Bank. The Bank through a re-approval process analyses a complete status of the debtor. The meaning of regular re-approval of credit exposures is an active follow-up on client and portfolio quality and it represents an additional measure of optimisation of credit risk exposure of the Bank. The Bank performs evaluation of creditworthiness based on all information on client, also taking into consideration prior credit relationships between the Bank and the client.

27. Credit risk review and monitoring (continued)

A group-wide standardized early warning monitoring process is implemented in the Bank to proactively identify negative developments. The early warning monitoring process is managed in the Credit Risk Management Division. When early warning signals are identified and validated, the overall client exposure and creditworthiness is reviewed, and adequate risk mitigating actions are taken if deemed necessary. Watch list review meetings for Corporate clients are held on a regular basis to monitor customers with a poor credit standing and to discuss pre-emptive measures. For smaller enterprises (micro) and retail customers, the monitoring is based on an automated early warning system. In retail risk management, the early warning signals for adverse portfolio developments include, for instance, quality deterioration in new business or a decreasing collections effectiveness and require appropriate countermeasures. Additionally, the monitoring is performed for clients where early warning signals have been identified, even if they are still fulfilling their contractual repayment obligations.

Early detection of increased risk level

The Bank applies methods of early detection of increased credit risk level in order to make collection more successful even in the case of decrease in credit worthiness and decrease in the quality of credit portfolio. An increased level of credit risk on the level of respective client and portfolio is detected by following all relevant information and foreseen change of variables in the future period which primarily includes client's prior behaviour in obligations repayment and following market information.

Therefore, increased level of credit risk is on the level of the Bank timely detected by following:
- Market conditions,
- Rating changes,
- Delays,
- Monitoring of market conditions also involves monitoring of all macroeconomic variables as well as their evaluation in upcoming period.

28. Credit risk exposure

Credit risk exposure relates to the sum of the following balance sheet items:
- Other demand deposits to credit institutions;
- Debt instruments held for trading;
- Non-trading debt instruments at fair value through profit or loss (FVPL);
- Debt instruments at fair value through other comprehensive income (FVOCI);
- Debt instruments at amortised cost (AC),
- Trade and other receivables (for disclosure purposes in the tabular summaries below, any contract assets are also included in this category);
- Debt instruments held for sale in disposal groups;
- Finance lease receivables;
- Positive fair value of derivatives;
- Off-balance sheet credit risks (primarily financial guarantees and undrawn irrevocable credit commitments).

The credit risk exposure equates the gross carrying amount (or nominal value in the case of off-balance sheet positions) excluding:
- credit loss allowances for financial assets;
- credit loss allowances for loan commitments and financial guarantees;
- provisions for other commitments;
- any collateral held (including risk transfer to guarantors);
- netting effects;
- other credit enhancements;
- credit risk mitigating transactions.

The following tables show the reconciliation between the gross carrying amount and the net carrying amount of the separate components of the Group's and the Bank's credit risk exposure as at 31 December 2023 and 31 December 2022.

28. Credit risk exposure (continued)

Reconciliation between the gross carrying amount and the net carrying amount of the credit risk exposure components

	GROUP				BANK			
in EUR million	Credit risk exposure	Credit loss allowances	FV adjustments	Net carrying amount	Credit risk exposure	Credit loss allowances	FV adjustments	Net carrying amount
2023								
Other demand deposits to credit institutions	46	-	-	46	12	-	-	12
Instruments HfT	23	-	-	23	23	-	-	23
Non-trading debt instruments at FVPL	6	-	-	6	6	-	-	6
Debt securities	6	-	-	6	6	-	-	6
Debt instruments at FVOCI	1,148	(3)	(52)	1,093	1,091	(3)	(49)	1,039
Debt securities	1,148	(3)	(52)	1,093	1,091	(3)	(49)	1,039
Debt instruments at AC	10,641	(284)	-	10,357	9,868	(248)	-	9,620
Debt securities	1,804	(1)	-	1,803	1,758	(1)	-	1,757
Loans and advances to banks	68	-	-	68	31	-	-	31
Loans and advances to customers	8,769	(283)	-	8,486	8,079	(247)	-	7,832
Trade and other receivables	185	(15)	-	170	115	(6)	-	109
Finance lease receivables	487	(4)	-	483	-	-	-	-
Off balance-sheet exposures	2,452	(17)	-	-	2,205	(15)	-	-
Financial guarantees	904	(9)	-	-	838	(9)	-	-
Loan commitments	1,099	(8)	-	-	943	(6)	-	-
Other commitments	449	-	-	-	424	-	-	-
Total	**14,988**	**(323)**	**(52)**	**12,178**	**13,320**	**(272)**	**(49)**	**10,809**

	GROUP				BANK			
in EUR million	Credit risk exposure	Credit loss allowances	FV adjustments	Net carrying amount	Credit risk exposure	Credit loss allowances	FV adjustments	Net carrying amount
2022								
Other demand deposits to credit institutions	89	-	-	89	24	-	-	24
Instruments HfT	26	-	-	26	26	-	-	26
Non-trading debt instruments at FVPL	5	-	-	5	5	-	-	5
Debt securities	5	-	-	5	5	-	-	5
Debt instruments at FVOCI	1,334	(9)	(109)	1,216	1,278	(9)	(103)	1,166
Debt securities	1,334	(9)	(109)	1,216	1,278	(9)	(103)	1,166
Debt instruments at AC	9,733	(303)	-	9,430	9,008	(265)	-	8,743
Debt securities	1,331	(1)	-	1,330	1,290	-	-	1,290
Loans and advances to banks	384	-	-	384	345	-	-	345
Loans and advances to customers	8,018	(302)	-	7,716	7,373	(265)	-	7,108
Trade and other receivables	189	(17)	-	172	123	(6)	-	117
Finance lease receivables	406	(6)	-	400	-	-	-	-
Off balance-sheet exposures	2,378	(35)	-	-	2,119	(33)	-	-
Financial guarantees	732	(13)	-	-	674	(11)	-	-
Loan commitments	1,646	(22)	-	-	1,445	(22)	-	-
Other commitments	-	-	-	-	-	-	-	-
Total	**14,160**	**(370)**	**(109)**	**11,338**	**12,583**	**(313)**	**(103)**	**10,081**

Credit loss allowances comprise impairments for financial assets measured at amotised cost (including finance lease and trade and other receivables) and at fair value through other comprehensive income (FVOCI), as well as credit loss allowances and provisions for off-balance sheet exposures. Adjustments refer to the fair value changes of the carrying amount for financial assets at FVOCI.

In 2023, other loan commitments given are part of other commitments due to methodological change, while in 2022 other loan commitments are part of loan commitments and amounts to EUR 460 million.

28. Credit risk exposure (continued)

Breakdown of credit risk exposure

On the next pages the credit risk exposure is categorized in the following way:
_ industry and IFRS 9 treatment;
_ region and risk category;
_ business segment and risk category.

Subsequently, credit risk exposure is reported in the following way:
_ credit risk exposure, forbearance exposure, and credit loss allowances;
_ financial instrument and collateral.

Credit risk exposure by industry and IFRS 9 treatment

							GROUP
in EUR million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2023							
Natural Resources & Commodities	286	122	11	-	419	22	441
Energy	251	453	1	-	705	33	738
Construction and building materials	690	106	21	4	821	136	957
Automotive	144	13	2	-	159	19	178
Cyclical Consumer Products	374	48	15	-	437	52	489
Non-Cyclical Consumer Products	340	23	14	1	378	51	429
Machinery	149	16	1	-	166	44	210
Transportation	831	54	4	1	890	14	904
TMT; Telecommunications, Media, Technology and Paper & Packaging	164	19	1	-	184	20	204
Healthcare & Services	293	55	5	1	354	43	397
Hotels, Gaming & Leisure Industry	617	225	31	8	881	9	890
Real Estate	821	62	18	7	908	3	911
Public Sector	3,647	164	-	-	3,811	-	3,811
Financial Institutions	343	4	-	-	347	31	378
Private Households	3,141	762	147	1	4,051	-	4,051
Total	**12,091**	**2,126**	**271**	**23**	**14,511**	**477**	**14,988**

							GROUP
in EUR million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2022							
Natural Resources & Commodities	273	136	15	-	424	7	431
Energy	5	702	1	-	708	69	777
Construction and building materials	482	161	27	5	675	167	842
Automotive	108	21	3	-	132	10	142
Cyclical Consumer Products	375	69	17	1	462	50	512
Non-Cyclical Consumer Products	273	22	18	2	315	45	360
Machinery	106	17	2	2	127	44	171
Transportation	714	67	9	1	791	5	796
TMT; Telecommunications, Media, Technology and Paper & Packaging	171	14	2	-	187	27	214
Healthcare & Services	280	25	7	-	312	44	356
Hotels, Gaming & Leisure Industry	564	274	26	9	873	11	884
Real Estate	685	65	10	8	768	3	771
Public Sector	3,657	303	-	-	3,960	-	3,960
Financial Institutions	377	2	-	-	379	35	414
Private Households	2,642	734	153	1	3,530	-	3,530
Total	**10,712**	**2,612**	**290**	**29**	**13,643**	**517**	**14,160**

28. Credit risk exposure (continued)

Credit risk exposure by industry and IFRS 9 treatment (continued)

							BANK
in EUR million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2023							
Natural Resources & Commodities	263	116	10	-	389	23	412
Energy	228	451	1	-	680	33	713
Construction and building materials	608	61	18	4	691	127	818
Automotive	111	6	1	-	118	19	137
Cyclical Consumer Products	266	30	12	-	308	46	354
Non-Cyclical Consumer Products	268	16	15	1	300	47	347
Machinery	141	14	-	-	155	44	199
Transportation	736	35	4	1	776	13	789
TMT; Telecommunications, Media, Technology and Paper & Packaging	126	16	1	-	143	17	160
Healthcare & Services	239	41	3	-	283	41	324
Hotels, Gaming & Leisure Industry	588	202	15	8	813	7	820
Real Estate	791	51	19	7	868	2	870
Public Sector	3,477	162	-	-	3,639	-	3,639
Financial Institutions	310	4	-	-	314	34	348
Private Households	2,587	677	125	1	3,390	-	3,390
Total	**10,739**	**1,882**	**224**	**22**	**12,867**	**453**	**13,320**

							BANK
in EUR million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total
2022							
Natural Resources & Commodities	258	132	14	-	404	7	411
Energy	-	685	1	-	686	68	754
Construction and building materials	410	120	25	5	560	158	718
Automotive	82	16	3	-	101	10	111
Cyclical Consumer Products	271	48	13	1	333	46	379
Non-Cyclical Consumer Products	225	14	16	2	257	42	299
Machinery	100	16	2	2	120	41	161
Transportation	637	52	6	1	696	3	699
TMT; Telecommunications, Media, Technology and Paper & Packaging	138	10	1	-	149	21	170
Healthcare & Services	225	19	5	-	249	40	289
Hotels, Gaming & Leisure Industry	544	238	16	9	807	10	817
Real Estate	666	55	9	8	738	4	742
Public Sector	3,501	302	-	-	3,803	1	3,804
Financial Institutions	293	1	-	-	294	40	334
Private Households	2,111	655	128	1	2,895	-	2,895
Total	**9,461**	**2,363**	**239**	**29**	**12,092**	**491**	**12,583**

28. Credit risk exposure (continued)

Credit risk exposure by region and risk category

The following table presents the credit risk exposure of the Group and the Bank divided by region and risk category as at 31 December 2023 and 31 December 2022.

Credit risk exposure by region and risk category

					GROUP
in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2023					
Erste Group markets	**12,400**	**665**	**73**	**259**	**13,397**
Austria	71	-	-	-	71
Croatia	12,142	664	73	259	13,138
Serbia	1.00	1	-	-	2
Slovakia	183	-	-	-	183
Hungary	3	-	-	-	3
Other EU	**443**	**3**	**-**	**-**	**446**
Other industrialised countries	**217**	**1**	**-**	**-**	**218**
Emerging markets	**760**	**127**	**9**	**31**	**927**
South Eastern Europe/CIS	737	126	9	31	903
Asia	23	-	-	-	23
Middle East/Africa	-	1	-	-	1
Total	**13,820**	**796**	**82**	**290**	**14,988**
2022					
Erste Group markets	**11,639**	**606**	**76**	**285**	**12,606**
Austria	106	1	-	-	107
Croatia	11,310	605	76	285	12,276
Serbia	1	-	-	-	1
Slovakia	220	-	-	-	220
Hungary	2	-	-	-	2
Other EU	**520**	**3**	**1**	**-**	**524**
Other industrialised countries	**153**	**2**	**-**	**1**	**156**
Emerging markets	**493**	**334**	**17**	**30**	**874**
Southeastern Europe/CIS	462	334	17	30	843
Asia	30	-	-	-	30
Middle East/Africa	1	-	-	-	1
Total	**12,805**	**945**	**94**	**316**	**14,160**

28. Credit risk exposure (continued)

Credit risk exposure by region and risk category (continued)

					BANK
in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2023					
Erste Group markets	**11,773**	**499**	**38**	**238**	**12,548**
Austria	55	-	-	-	55
Croatia	11,531	499	38	238	12,306
Serbia	1	-	-	-	1
Slovakia	183	-	-	-	183
Hungary	3	-	-	-	3
Other EU	**417**	**5**	**-**	**-**	**422**
Other industrialised countries	**213**	**-**	**-**	**-**	**213**
Emerging markets	**133**	**1**	**-**	**3**	**137**
South Eastern Europe/CIS	119	1	-	3	123
Asia	14	-	-	-	14
Total	**12,536**	**505**	**38**	**241**	**13,320**
2022					
Erste Group markets	**11,034**	**451**	**43**	**261**	**11,789**
Austria	75	1	-	-	76
Croatia	10,736	450	43	261	11,490
Serbia	1	-	-	-	1
Slovakia	220	-	-	-	220
Hungary	2	-	-	-	2
Other EU	**495**	**3**	**1**	**-**	**499**
Other industrialised countries	**152**	**1**	**-**	**1**	**154**
Emerging markets	**75**	**63**	**-**	**3**	**141**
Southeastern Europe/CIS	58	63	-	3	124
Asia	16	-	-	-	16
Middle East/Africa	1	-	-	-	1
Total	**11,756**	**518**	**44**	**265**	**12,583**

28. Credit risk exposure (continued)

Credit risk exposure by business segment and risk category

The reporting segment of the Group and the Bank is based on the matrix organization by business segment and risk category. The following tables show the credit risk exposure of the Group and the Bank broken down by reporting segments and risk category as at 31 December 2023 and 31 December 2022.

Credit risk exposure by business segment and risk category

					GROUP
in EUR million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
2023					
Retail	3,629	602	68	159	4,458
Small and Medium Enterprises	3,072	118	11	79	3,280
Large Corporates	2,069	59	1	24	2,153
Public sector	1,295	14	-	-	1,309
Commercial Real Estate	583	-	2	27	612
Group Market Trading	11	-	-	-	11
Group Market Financial Institutions	155	1	-	-	156
Asset/Liability Management	2,976	1	-	-	2,977
Other	30	1	-	1	32
Total	**13,820**	**796**	**82**	**290**	**14,988**
2022					
Retail	3,102	555	67	171	3,895
Small and Medium Enterprises	2,852	132	14	105	3,103
Large Corporates	1,788	50	10	21	1,869
Public sector	1,462	46	-	-	1,508
Commercial Real Estate	526	-	3	18	547
Group Market Trading	20	-	-	-	20
Group Market Financial Institutions	170	3	-	-	173
Asset/Liability Management	2,853	159	-	-	3,012
Other	32	-	-	1	33
Total	**12,805**	**945**	**94**	**316**	**14,160**

28 Credit risk exposure (continued)

Credit risk exposure by business segment and risk category (continued)

					BANK
in EUR million	**Low risk**	**Management attention**	**Substandard**	**Non-performing**	**Credit risk exposure**
2023					
Retail	3,080	382	29	133	3,624
Small and Medium Enterprises	2,739	85	7	72	2,903
Large Corporates	1,894	34	-	9	1,937
Public sector	1,247	3	-	-	1,250
Commercial Real Estate	581	-	2	26	609
Group Market Trading	11	-	-	-	11
Group Market Financial Institutions	154	-	-	-	154
Asset/Liability Management	2,799	-	-	-	2,799
Other	31	1	-	1	33
Total	**12,536**	**505**	**38**	**241**	**13,320**
2022					
Retail	2,606	338	31	139	3,114
Small and Medium Enterprises	2,549	101	9	94	2,753
Large Corporates	1,668	10	1	13	1,692
Public sector	1,451	4	-	-	1,455
Commercial Real Estate	525	-	3	18	546
Group Market Trading	20	-	-	-	20
Group Market Financial Institutions	167	3	-	-	170
Asset/Liability Management	2,745	62	-	-	2,807
Other	25	-	-	1	26
Total	**11,756**	**518**	**44**	**265**	**12,583**

The amount written off during 2023, which is still subject to enforcement activity, totals EUR 10 million for the Group and EUR 9 million for the Bank (2022: EUR 41 million for the Group and EUR 39 million for the Bank). Cumulative amount written off, which is still subject to enforcement activity, totals EUR 166 million for the Group and EUR 153 million for the Bank.

29. Non-performing credit risk exposure and allowances for credit risks

Non-performing credit risk exposure decreased by EUR 25 million from EUR 316 million on 31 December 2022 to EUR 291 million on 31 December 2023 in the Group. During the same period, non-performing exposure in the Bank decreased by EUR 23 million, from EUR 265 million on 31 December 2022 to EUR 242 million on 31 December 2023.

Credit risk allowances decreased by EUR 44 million in the Group, from EUR 369 million on 31 December 2022 to EUR 325 million on 31 December 2023. The decrease of credit risk allowances in the Bank was EUR 40 million from EUR 314 million on 31 December 2022 to EUR 274 million on 31 December 2023.

Coverage of the non-performing credit risk exposure by credit risk allowances decreased, from 116.8% to 111.7% in the Group and from 118.3% to 113.2% in the Bank. Share of non-performing credit risk exposure in total credit risk exposure in the Group amounted to 1.9% (2022: 2.2%) and 1.8% in the Bank (2022: 2.1%).

30. Measurement of expected credit loss

The general principles and standards for credit risk allowances within the Bank follow the Erste Group's procedures, international standards and are described in internal policies.

The calculation of credit loss allowances is done on a monthly basis, on exposure/asset level, in the currency of the exposure. To calculate the loss allowance, the Bank applies an expected credit loss (ECL) model based on a three stages approach that either leads to a 12-months ECL or to a Lifetime ECL.
The stage approach means that if the financial asset is not recognised as purchased or originated credit-impaired financial asset (POCI), i.e. financial asset which is credit-impaired at initial recognition, then depending on the impairment status and the assessment of the increase of credit risk, the financial asset is assigned into one of the following stages:

Classification into stages and definition of credit-impared financial instruments

Stage 1

It includes:

- a) Financial assets at initial recognition, except:
  - i) POCI assets
  - ii) Assets the initial (on-balance) recognition of which is triggered by first usage of a binding loan commitment given to a counterparty for which a significant credit deterioration occurred since sign-up (initial recognition) of that loan commitment, but which is not in default at the time of such first usage
- b) Financial assets which fulfil the low credit risk conditions;
- c) Financial assets without significant increase in credit risk since initial recognition irrespective of their credit quality

In stage 1 the credit risk loss allowances are calculated as 12-months ECL.

Stage 2

It includes financial assets with a significant increase in credit risk, but not credit-impaired at the reporting date, including initially recognized assets described under 1) a) ii) above.
In stage 2 the credit risk loss allowances are calculated as lifetime ECL.

Stage 3

It includes financial assets which are credit-impaired at the reporting date. In principle, financial instrument becomes credit-impaired when customer meets one or more of the default criteria according to Article 178 of Regulation (EU) No 575/2013 and Croatian National Bank bylaws, more precisely defined in Internal rating system part.
In stage 3 the credit loss allowances are calculated as lifetime ECL.

POCI

POCI includes financial instruments that were credit-impaired at initial recognition, irrespective of whether they are still credit-impaired at the reporting date. Expected credit losses against POCI exposures are always calculated on a lifetime basis and are reflected in the credit-adjusted effective interest rate at initial recognition.

30. Measurement of expected credit loss (continued)

Quantitative criteria

Quantitative criteria for significant increase in credit risk (SICR) indicators include adverse changes in annualized lifetime probability of default and in lifetime probability of default with significance being assessed by reference to a mix of relative and absolute change thresholds. The bank has established thresholds for significant increases in credit risk based on both a percentage (relative) and absolute change in PD compared to initial recognition. SICR occurs for a particular financial instrument, when both the relative and the absolute thresholds are breached.

The relative measure is calculated as a ratio between current annualised LT PD and annualised LT PD value on initial recognition, considering remaining maturity of the instrument. The breach means that such ratio has reached or is higher than the established threshold. These relative thresholds for SICR assessment are established at PD segment level or client rating level for rating method, as necessary, and are subject to initial and on-going validation.

Relative thresholds for SICR assessment

	Threshold interval (x times)	
in EUR million	Min	Max
2023		
Erste&Steiermärkische Bank d.d.	1.13	3.13
Total	**1.13**	**3.13**
2022		
Erste&Steiermärkische Bank d.d.	1.13	3.13
Total	**1.13**	**3.13**

Thresholds might seem to show high dispersion, but they are driven mainly rating diversity. Segments, ie. rating methods with higher credit quality portfolios have lower thresholds than those with lower credit quality portfolios. The minimal threshold of 1.13 refers to sovereign rating classes that are centrally established.

The absolute threshold refers to difference of LT PD on initial recognition and current LT PD. In the Bank it is set to a maximum of 50 bps and serves as a back-stop for migrations between the best ratings (LT PDs considered for remaining maturity). In such cases, relative thresholds may be breached, however overall LT PD is very low, and therefore SICR is not triggered.

For migration back to Stage 1 there are no additional cure periods established for quantitative criteria other than those already established in general credit risk practice (e.g. for rating improvement).

Qualitative criteria

Qualitative SICR indicators include forbearance-type flags (identification of regulatory forbearance), work-out transfer flags (when the account starts being monitored by the work-out department), information from the early-warning system (if it is not sufficiently considered in the rating) and fraud indicators. The assignment of some of the qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and in a timely manner. The related group-wide and entity-level credit risk controlling policies and procedures (adapted as necessary in the light of transition to IFRS 9) ensure the necessary governance framework. These indicators are used internally for identification of insolvency or increased probability that a borrower will enter bankruptcy and there is increased risk of default in the foreseeable future.
For migration back to Stage 1 there is additional cure period for the portfolio which is being classified as Stage 2 due to the early-warning signal and it lasts 210 days.

30. Measurement of expected credit loss (continued)

Besides the qualitative indicators defined on a client level, the assessment of a significant increase in credit risk is performed on a portfolio level if the increase in credit risk on individual instruments or at a client level is available only with a certain time lag or is observable exclusively on a portfolio level.

Erste Bank Croatia Group has introduced additional portfolio level SICR assessment criteria due to the war in Ukraine (implemented in 2022) and related economic impacts. More specific details and movements about overalys can be found in the text bellow.

Backstop

A backstop is applied and the financial instruments are considered to have experienced a SICR if the borrower is more than 30 days past due on contractual payments.

Measuring ECL – explanation of inputs and measurement

Credit loss allowances are calculated individually or collectively.

The individual calculation approach is applied in case of exposures to significant defaulted customers in Stage 3 or POCI. It consists in the individual assessment of the difference between the gross carrying amount and the present value of the expected cash flows, which are estimated by workout or risk managers. The discounting of the cash flows is based on the effective interest rate (POCI: credit-adjusted effective interest rate).

A defaulted customer is classified as individually significant if the total on- and off-balance exposure exceeds a predefined materiality limit (400 ths EUR). Otherwise, the customer is considered insignificant and a rule-based (collective) approach is used for the calculation of the related credit loss allowance as the product of gross carrying amount and LGD, where the LGD depends on characteristics such as time in default.

For exposures to non-defaulted customers (i.e. in Stage 1 and Stage 2), collective allowances are calculated according to a rule-based approach irrespective of the significance of the customer. The calculation of collective allowances requires grouping the related exposures into homogenous clusters on the basis of shared risk characteristics. The grouping criteria may differ based on the customer segment (retail, corporate) and include product type, collateral type, repayment type, loan to value band and credit rating band.

The calculation of credit loss allowances is done on a monthly basis on a single exposure level and in the domestic currency. To compute the collective credit loss allowance, the Bank applies an expected credit loss (ECL) model based on a three-stage approach that leads to either a 12-month ECL or to a lifetime ECL. ECL is the discounted product of exposure at default (EAD) that also includes a credit conversion factor in the case of off-balance sheet exposures, probability of default (PD) and loss given default (LGD), defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation (per definition of default below), either over next 12 months (1Y PD) for Stage 1 exposures or over the remaining lifetime (LT PD) for Stage 2 and 3 and POCI exposures.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over next 12 months (1Y EAD) for Stage 1 exposures, or over the remaining lifetime (LT EAD) for Stage 2 and 3 and POCI exposures. The estimation includes current balance, expected repayments and expected drawings up to the current contractual limit by the time of default.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit exposure at the time of default (EAD).

30. Measurement of expected credit loss (continued)

Lifetime parameters

The LT PD is developed through observation of historical defaults from initial recognition through the lifetime of the loans. It is assumed to be same across all assets in the same portfolio and rating band.

The 1Y and LT EADs are determined based on the expected payment profiles, which vary by product type. The LT EAD calculation utilizes repayment schedule or repayment type (annuity, linear, bullet). In case of undrawn commitments, credit conversion factor is estimated for reflecting the expected credit exposure in the EAD.

LGD is estimated as a life-time curve for any point in time, based on the historical loss observations.

The risk parameters used in the ECL calculation take into account available information at the reporting date about past events, current conditions and forecasts on future economic trends. Generally, the risk parameters applied in the calculation of collective allowances differ from the risk parameters compliant to capital requirement regulations, calculated on a through-the-cycle basis if the characteristics of the respective portfolio in combination with IFRS standards necessitate this.

31. Development of credit loss allowances

The following tables give an overview over the development of credit loss allowances per balance sheet line item.
In column 'Additions' increases of CLA due to the initial recognition of financial instruments during the current reporting period are disclosed. Releases of CLA following the derecognition of the related financial instruments are reported in column 'Derecognitions'.
Besides regular annual re-estimation of the IFRS9 risk parameters performed in the third quarter which resulted in the release of credit loss allowances in the amount of 13,3 million EUR, review of rules for collective SICR assessment is conducted during the year that contributed to the release in the amount of 3,4 million EUR. Additionally, in the first quarter two Group (Large) Corporate models were introduced. This implementation had impact on credit loss alowances in the amount of -8 million EUR (release). Moreover, in the last quarter, recalibration of the Group models is performed, as well as FLI update considering most recent scenario projections which resulted in overall additional cost in the amount of 0,2 million EUR.
In addition to the mentioned changes, regular portfolio movements (rating change, recoveries and overall decrease of NPL stock) contributed to overall effect.
In column 'Transfers between stages' CLA net changes due to changes in credit risk that triggered re-assignments of the related financial instruments from Stage 1 (at 1 January 2022 or initial recognition date) to Stages 2 or 3 at 31 December 2022 or vice-versa are reported. The effects of transfers from Stage 1 to Stages 2 or 3 on the related CLAs are adverse and presented in lines attributable to Stages 2 or 3. The effects of transfers from Stages 2 or 3 to Stage 1 on the related CLAs are favourable and presented in line 'Stage 1'.

The P&L-neutral effect from cross-stage transferring of the related CLA amounts recognised prior to stage re-assignments are presented above in column 'Changes in credit risk'.

Any other changes in credit risk which do not trigger a transfer between Stage 1 and Stage 2 or 3 or vice-versa are disclosed in column 'Changes in credit risk'.

Financial instruments held at amortised cost:

Movement in credit loss allowances – debt securities

GROUP

in EUR million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2023						Dec 2023
Stage 1	(1)	(1)	-	-	1	-	(1)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(1)**	**(1)**	**-**	**-**	**1**	**-**	**(1)**
	Jan 2022						Dec 2022
Stage 1	(1)	-	-	-	-	-	(1)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**

BANK

in EUR million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2023						Dec 2023
Stage 1	-	(1)	-	-	-	-	(1)
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**(1)**	**-**	**-**	**-**	**-**	**(1)**
	Jan 2022						Dec 2022
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**

31. Development of credit loss allowances (continued)

Movement in credit loss allowances – debt securities (continued)

The year-end total GCAs of AC debt securities that were initially recognized (purchased) during the year 2023 and not sold by 31 December 2023 amounts to EUR 364 million for the Group and EUR 359 million for the Bank (2022: EUR 591 million for the Group and EUR 586 million for the Bank). Increase of carrying amount of AC debt securities is mostly result of purchased bonds issued by the Republic of Croatia in amount of EUR 185 million.
The GCA of AC debt securities that were held at 1 January 2023 and derecognized (matured) during the year 2023 amounts to EUR 97 million for the Group and for the Bank (2022: EUR 20 million for the Group and EUR 20 million for the Bank). In 2022, derecognized amount of EUR 20 million for the Group and for the Bank is result of sales AC debt securities.

Movement in credit loss allowances – loans and advances to banks

							GROUP
in EUR million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2023						Dec 2023
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Jan 2022						Dec 2022
Stage 1	-	(2)	2	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**(2)**	**2**	**-**	**-**	**-**	**-**

31. Development of credit loss allowances (continued)

Movement in credit loss allowances – loans and advances to banks (continued)

							BANK
in EUR million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2023						Dec 2023
Stage 1	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	Jan 2022						Dec 2022
Stage 1	(1)	(1)	2	-	-	-	-
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	**(1)**	**(1)**	**2**	**-**	**-**	**-**	**-**

The year-end total GCA of AC loans and advances to banks that were initially recognized during the year 2023 and not fully de-recognized by 31 December 2023 amounts to EUR 48 million for the Group and EUR 16 million for the Bank (2022: EUR 372 million for the Group and EUR 365 million for the Bank).
The GCA of AC loans and advances to banks that were held at 1 January 2023 and fully derecognized (matured) during the year 2023 amounts to EUR 213 million for the Group and EUR 121 million for the Bank (2022: EUR 598 million for the Group and EUR 591 million for the Bank).

31. Development of credit loss allowances (continued)

Movement in credit loss allowances – loans and advances to customers

GROUP									
in EUR million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2023								Dec 2023
Stage 1	**(24)**	**(11)**	**4**	**19**	**(11)**	**-**	**-**	**-**	**(23)**
General governments	(1)	(1)	-	-	1	-	-	-	(1)
Other financial corporations	-	(1)	1	-	-	-	-	-	-
Non-financial corporations	(13)	(5)	2	13	(8)	-	-	-	(11)
Households	(10)	(4)	1	6	(4)	-	-	-	(11)
Stage 2	**(93)**	**(16)**	**6**	**(21)**	**41**	**-**	**-**	**-**	**(83)**
General governments	(2)	-	-	-	1	-	-	-	(1)
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(61)	(9)	4	(12)	28	-	-	-	(50)
Households	(30)	(7)	2	(9)	12	-	-	-	(32)
Stage 3	**(172)**	**(1)**	**15**	**(1)**	**(19)**	**-**	**13**	**-**	**(165)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(68)	(1)	7	-	(9)	-	7	-	(64)
Households	(104)	-	8	(1)	(10)	-	6	-	(101)
POCI	**(13)**	**-**	**1**	**-**	**(1)**	**-**	**1**	**-**	**(12)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(13)	-	1	-	(1)	-	1	-	(12)
Households	-	-	-	-	-	-	-	-	-
Total	**(302)**	**(28)**	**26**	**(3)**	**10**	**-**	**14**	**-**	**(283)**

GROUP									
in EUR million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2022								Dec 2022
Stage 1	**(32)**	**(12)**	**5**	**22**	**(7)**	**-**	**-**	**-**	**(24)**
General governments	(2)	(1)	1	-	1	-	-	-	(1)
Other financial corporations	-	(1)	1	-	-	-	-	-	-
Non-financial corporations	(17)	(7)	2	17	(8)	-	-	-	(13)
Households	(13)	(3)	1	5	-	-	-	-	(10)
Stage 2	**(100)**	**(23)**	**15**	**(32)**	**47**	**-**	**-**	**-**	**(93)**
General governments	(2)	-	1	-	(1)	-	-	-	(2)
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(74)	(16)	12	(18)	35	-	-	-	(61)
Households	(24)	(7)	2	(14)	13	-	-	-	(30)
Stage 3	**(244)**	**-**	**35**	**(1)**	**(18)**	**-**	**56**	**-**	**(172)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	(1)	-	-	-	-	-	1	-	-
Non-financial corporations	(104)	-	21	-	(2)	-	16	1	(68)
Households	(139)	-	14	(1)	(16)	-	39	(1)	(104)
POCI	**(14)**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**(13)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(14)	-	-	-	-	-	1	-	(13)
Households	-	-	-	-	-	-	-	-	-
Total	**(390)**	**(35)**	**55**	**(11)**	**22**	**-**	**57**	**-**	**(302)**

31. Development of credit loss allowances (continued)

Movement in credit loss allowances – loans and advances to customers (continued)

									BANK
in EUR million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2023								Dec 2023
Stage 1	**(18)**	**(9)**	**2**	**19**	**(11)**	**-**	**-**	**-**	**(17)**
General governments	(1)	(1)	-	-	1	-	-	-	(1)
Other financial corporations	-	(1)	1	-	-	-	-	-	-
Non-financial corporations	(12)	(4)	1	13	(8)	-	-	-	(10)
Households	(5)	(3)	-	6	(4)	-	-	-	(6)
Stage 2	**(84)**	**(16)**	**5**	**(19)**	**36**	**-**	**-**	**-**	**(78)**
General governments	(2)	-	-	-	1	-	-	-	(1)
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(56)	(9)	3	(11)	25	-	-	-	(48)
Households	(26)	(7)	2	(8)	10	-	-	-	(29)
Stage 3	**(150)**	**(1)**	**13**	**(1)**	**(10)**	**-**	**9**	**-**	**(140)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(61)	(1)	7	-	(3)	-	6	-	(52)
Households	(89)	-	6	(1)	(7)	-	3	-	(88)
POCI	**(13)**	**-**	**1**	**-**	**(1)**	**-**	**1**	**-**	**(12)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(13)	-	1	-	(1)	-	1	-	(12)
Households	-	-	-	-	-	-	-	-	-
Total	**(265)**	**(26)**	**21**	**(1)**	**14**	**-**	**10**	**-**	**(247)**

									BANK
in EUR million	As of	Additions	Derecogni-tions	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2022								Dec 2022
Stage 1	**(24)**	**(12)**	**4**	**21**	**(7)**	**-**	**-**	**-**	**(18)**
General governments	(1)	(1)	-	-	1	-	-	-	(1)
Other financial corporations	-	(1)	1	-	-	-	-	-	-
Non-financial corporations	(15)	(7)	2	16	(8)	-	-	-	(12)
Households	(8)	(3)	1	5	-	-	-	-	(5)
Stage 2	**(91)**	**(23)**	**14**	**(29)**	**45**	**-**	**-**	**-**	**(84)**
General governments	(2)	-	-	-	-	-	-	-	(2)
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(68)	(16)	12	(18)	34	-	-	-	(56)
Households	(21)	(7)	2	(11)	11	-	-	-	(26)
Stage 3	**(214)**	**-**	**27**	**-**	**(14)**	**-**	**51**	**-**	**(150)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(95)	-	19	-	-	-	15	-	(61)
Households	(119)	-	8	-	(14)	-	36	-	(89)
POCI	**(14)**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**(13)**
General governments	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-
Non-financial corporations	(14)	-	-	-	-	-	1	-	(13)
Households	-	-	-	-	-	-	-	-	-
Total	**(343)**	**(35)**	**45**	**(8)**	**24**	**-**	**52**	**-**	**(265)**

31. Development of credit loss allowances (continued)

Movement in credit loss allowances – loans and advances to customers (continued)

The column 'Changes in credit risk' also captures the passage-of-time adverse effect ('unwinding correction') over the lifetime expected cash shortfalls of AC loans and advances to customers that were assigned to Stage 3 for any period throughout the year, as well as of any POCI loans and advances to customers. This adverse effect amounted to EUR 3 million for the Group and EUR 2 million for the Bank (2022: EUR 2 million for the Group and EUR 1 million for the Bank) cumulatively for the year 2023, which also reflects the unrecognised interest income out of the related AC loans and advances to customers throughout the year.
The column 'Insignificant modifications (net)' reflects the effect on CLA arising from contractual modifications of loans and advances to customers at AC which do not trigger their full derecognition. The use of CLA triggered by full or partial write-offs of AC loans and advances to customers is reported in column 'Write-offs'.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different impairment stages. The year-end GCA of AC loans and advances to customers that were assigned at 31 December 2023 to a different stage compared to 1 January 2023 (or to the initial recognition date, if originated during the year) are summarized below:

GCA transfers between impairment stages for loans and advances at amortised cost to customers

								GROUP
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in EUR million	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
2023								
General governments	1	8	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	171	260	11	1	14	-	-	-
Households	192	148	17	7	9	2	-	-
Total	**364**	**416**	**28**	**8**	**23**	**2**	**-**	**-**

								GROUP
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in EUR million	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
2022								
General governments	8	1	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	574	243	12	9	11	-	-	4
Households	424	113	19	10	11	2	-	1
Total	**1,006**	**357**	**31**	**19**	**22**	**2**	**-**	**5**

31. Development of credit loss allowances (continued)

Movement in credit loss allowances – loans and advances to customers (continued)

								BANK
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in EUR million	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
2023								
General governments	1	8	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	142	257	3	1	13	-	-	-
Households	161	132	16	6	7	2	-	-
Total	**304**	**397**	**19**	**7**	**20**	**2**	**-**	**-**

								BANK
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3		POCI	
in EUR million	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3	To Defaulted from Non-Defaulted	To Non-Defaulted from Defaulted
2022								
General governments	9	1	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-
Non-financial corporations	552	241	12	8	10	-	-	4
Households	370	96	16	10	8	1	-	1
Total	**931**	**338**	**28**	**18**	**18**	**1**	**-**	**5**

The year-end total GCA of the AC loans and advances to customers that were initially recognized during the year 2023 and not fully de-recognized by 31 December 2023 amounts to EUR 2,550 million for the Group and EUR 2,416 million for the Bank (2022: to EUR 2,708 million for the Group and EUR 2,580 million for the Bank), of which changes in GCA that contributed to changes in credit loss allowances are result of significant contractual modification in the amount of EUR 369 million for the Group and for the Bank (2022: EUR 282 million for the Group and for the Bank) and purchases made during the reporting period in the amount of EUR 17 million for the Group and for the Bank (2022: EUR 35 million for the Group and for the Bank).

The GCA of the AC loans and advances to customers that were held at 1 January 2023 and fully derecognized (mainly due to matured) during the year 2023 amounts to EUR 864 million for the Group and EUR 820 million for the Bank (2022: EUR 1,267 million for the Group and EUR 1,223 million for the Bank), of which changes in GCA that contributed to changes in credit loss allowances are result of significant contractual modification in the amount of EUR 313 million for the Group and for the Bank (2022: EUR 196 million for the Group and for the Bank) and sales made during the reporting period in the amount of EUR 1 million for the Group and for the Bank (2022: EUR 3 million for the Group and for the Bank).

The undiscounted amount of the lifetime expected credit losses considered in the initial measurement of the AC loans and advances to customers initially recognized and identified as POCI during the year 2023 amounted to EUR 1 million for the Group and for the Bank (2022: EUR 1 million for the Group and for the Bank).

31. Development of credit loss allowances (continued)

Movement in credit loss allowances – trade and other receivables

									GROUP
in EUR million	**As of**	**Additions**	**Derecogni-tions**	**Transfers between stages**	**Changes in credit risk**	**Insignificant modifications**	**Write-offs**	**Other**	**As of**
	Jan 2023								**Dec 2023**
Stage 1	(3)	(1)	1	-	-	-	-	-	(3)
Stage 2	(1)	-	1	-	-	-	-	-	-
Stage 3	(13)	-	3	-	(3)	-	1	-	(12)
POCI	-	-	-	-	-	-	-	-	-
Total	**(17)**	**(1)**	**5**	**-**	**(3)**	**-**	**1**	**-**	**(15)**

									GROUP
in EUR million	**As of**	**Additions**	**Derecogni-tions**	**Transfers between stages**	**Changes in credit risk**	**Insignificant modifications**	**Write-offs**	**Other**	**As of**
	Jan 2022								**Dec 2022**
Stage 1	(3)	(2)	2	-	-	-	-	-	(3)
Stage 2	(1)	(1)	1	-	-	-	-	-	(1)
Stage 3	(21)	-	7	-	(3)	-	5	(1)	(13)
POCI	-	-	-	-	-	-	-	-	-
Total	**(25)**	**(3)**	**10**	**-**	**(3)**	**-**	**5**	**(1)**	**(17)**

									BANK
in EUR million	**As of**	**Additions**	**Derecogni-tions**	**Transfers between stages**	**Changes in credit risk**	**Insignificant modifications**	**Write-offs**	**Other**	**As of**
	Jan 2023								**Dec 2023**
Stage 1	(1)	(1)	1	-	-	-	-	-	(1)
Stage 2	-	-	-	-	-	-	-	-	-
Stage 3	(5)	-	-	-	(1)	-	1	-	(5)
POCI	-	-	-	-	-	-	-	-	-
Total	**(6)**	**(1)**	**1**	**-**	**(1)**	**-**	**1**	**-**	**(6)**

									BANK
in EUR million	**As of**	**Additions**	**Derecogni-tions**	**Transfers between stages**	**Changes in credit risk**	**Insignificant modifications**	**Write-offs**	**Other**	**As of**
	Jan 2022								**Dec 2022**
Stage 1	(1)	(2)	2	-	-	-	-	-	(1)
Stage 2	(1)	-	1	-	-	-	-	-	-
Stage 3	(9)	-	-	-	(1)	-	5	-	(5)
POCI	-	-	-	-	-	-	-	-	-
Total	**(11)**	**(2)**	**3**	**-**	**(1)**	**-**	**5**	**-**	**(6)**

The year-end total GCA of the trade and other receivables that were initially recognized during the year 2023 and not fully de-recognized by 31 December 2023 amounts to EUR 81 million for the Group and EUR 80 million for the Bank (2022: EUR 93 million for the Group and EUR 92 million for the Bank), of which changes in GCA that contributed to changes in credit loss allowances are result of purchases made during the reporting period in the amount of EUR 78 million for the Group and for the Bank (2022: EUR 91 million for the Group and for the Bank).

The GCA of the trade and other receivables that were held on 1 January 2023 and fully de-recognized (matured) during the year 2023 amounts to EUR 79 million for the Group and EUR 72 million for the Bank (2022: EUR 81 million for the Group and EUR 66 million for the Bank), of which changes in GCA that contributed to changes in credit loss allowances are result of write-offs made during the reporting period in the amount of EUR 1 million for the Group and EUR 1 million for the Bank (2022: EUR 2 million for the Group and for the Bank).

31. Development of credit loss allowances (continued)

Financial assets at fair value through other comprehensive income – debt instruments:

Movement in credit loss allowances – debt instrument financial assets

							GROUP
in EUR million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2023						Dec 2023
Stage 1	(3)	-	-	3	(1)	-	(1)
Stage 2	(6)	(3)	1	-	6	-	(2)
Stage 3	-	-	-	-	-	-	-
Total	**(9)**	**(3)**	**1**	**3**	**5**	**-**	**(3)**

							GROUP
in EUR million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2022						Dec 2022
Stage 1	(4)	-	-	-	1	-	(3)
Stage 2	(7)	-	-	(1)	2	-	(6)
Stage 3	-	-	-	-	-	-	-
Total	**(11)**	**-**	**-**	**(1)**	**3**	**-**	**(9)**

							BANK
in EUR million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2023						Dec 2023
Stage 1	(2)	-	-	3	(2)	-	(1)
Stage 2	(7)	(3)	2	-	6	-	(2)
Stage 3	-	-	-	-	-	-	-
Total	**(9)**	**(3)**	**2**	**3**	**4**	**-**	**(3)**

							BANK
in EUR million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2022						Dec 2022
Stage 1	(3)	-	-	-	1	-	(2)
Stage 2	(7)	-	-	(2)	2	-	(7)
Stage 3	-	-	-	-	-	-	-
Total	**(10)**	**-**	**-**	**(2)**	**3**	**-**	**(9)**

One significant driver of the above presented CLA movements for the year has been the transfer of the related instruments across different stages. The year-end GCAs of FVOCI debt securities that were assigned at 31 December 2023 to a different stage compared to 1 January 2023 (or to the initial recognition date, if purchased during the year) are summarized in the table below:

Transfers between Stage 1 and Stage 2 – debt instrument financial assets

	GROUP		BANK	
in EUR million	2022	2023	2022	2023
To Stage 2 from Stage 1	88	-	88	-
To Stage 1 from Stage 2	-	96	-	96

31. Development of credit loss allowances (continued)

Movement in credit loss allowances – debt instrument financial assets (continued)

The year-end GCA of the debt securities at FVOCI that were initialy recognized during year 2023 and not fully derecognized by 31 December 2023 amounts to EUR 227 million for the Group and for the Bank (2022: EUR 33 million for the Group and for the Bank).
The GCA of the debt securities at FVOCI that were held at 1 January 2023 and fully derecognized during the year 2023 amounts to EUR 353 million for the Group and for the Bank (2022: EUR 272 million for the Group and for the Bank), of which changes in GCA that contributed to changes in credit loss allowances are result of sales made during the reporting period in the amount of EUR 256 million for the Group and for the Bank (2022: EUR 144 million for the Group and for the Bank).

Finance lease receivables:

Movement in credit loss allowances – finance lease receivables

									GROUP
in EUR million	As of	Additions	Charge-offs	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2023								Dec 2023
Stage 1	(1)	(1)	-	1	-	-	-	-	(1)
Stage 2	(3)	-	1	-	1	-	-	-	(1)
Stage 3	(2)	-	-	-	-	-	-	-	(2)
POCI	-	-	-	-	-	-	-	-	-
Total	**(6)**	**(1)**	**1**	**1**	**1**	**-**	**-**	**-**	**(4)**

									GROUP
in EUR million	As of	Additions	Charge-offs	Transfers between stages	Changes in credit risk	Insignificant modifications	Write-offs	Other	As of
	Jan 2022								Dec 2022
Stage 1	(1)	-	-	-	-	-	-	-	(1)
Stage 2	(3)	-	1	(1)	-	-	-	-	(3)
Stage 3	(4)	-	2	-	-	-	-	-	(2)
POCI	-	-	-	-	-	-	-	-	-
Total	**(8)**	**-**	**3**	**(1)**	**-**	**-**	**-**	**-**	**(6)**

The use of CLA triggered by full or partial write-offs of finance lease receivables is reported in column 'Write-offs'.

One significant driver of the CLA movements for the year has been the transfer of the related instruments across impairment stages. The year-end GCA of finance lease receivables that were assigned at 31 December 2023 to a different stage compared to 1 January 2023 (or to the initial recognition date, if originated during the year) are summarized below:

Transfers between stages – finance lease receivables

		GROUP
in EUR million	2022	2023
Transfers between Stage 1 and Stage 2	**64**	**54**
To Stage 2 from Stage 1	40	22
To Stage 1 from Stage 2	24	32
Transfers between Stage 2 and Stage 3	**1**	**2**
To Stage 3 from Stage 2	1	1
To Stage 2 from Stage 3	-	1
Transfers between Stage 1 and Stage 3	**-**	**1**
To Stage 3 from Stage 1	-	1
To Stage 1 from Stage 3	-	-

31. Development of credit loss allowances (continued)

Movement in credit loss allowances – finance lease receivables (continued)

The year-end total GCA of the finance lease receivables that were initially recognised during the reporting period and not fully de-recognised by 31 December 2023 amounts to EUR 197 million for the Group and nil for the Bank (2022: EUR 17 million for the Group and nil for the Bank).
The GCA of the finance lease receivables that were held at 1 January 2023 and fully derecognised during the year 2023 amounts to EUR 172 million for the Group and nil for the Bank (2022: EUR 191 million for the Group and nil for the Bank).

Loan commitments and financial guarantees:

Movement in credit loss allowances – loan commitments and financial guarantees

							GROUP
in EUR million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2023						Dec 2023
Stage 1	6	9	(2)	(7)	1	-	7
Stage 2	25	-	(3)	3	(19)	-	6
Defaulted	4	-	(1)	-	1	-	4
Total	**35**	**9**	**(6)**	**(4)**	**(17)**	**-**	**17**

							GROUP
in EUR million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2022						Dec 2022
Stage 1	12	13	(5)	(2)	(12)	-	6
Stage 2	7	-	(4)	12	10	-	25
Defaulted	3	-	(2)	-	2	1	4
Total	**22**	**13**	**(11)**	**10**	**-**	**1**	**35**

							BANK
in EUR million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2023						Dec 2023
Stage 1	5	8	(2)	(7)	1	-	5
Stage 2	25	-	(3)	3	(19)	-	6
Defaulted	3	-	(1)	-	1	1	4
Total	**33**	**8**	**(6)**	**(4)**	**(17)**	**1**	**15**

							BANK
in EUR million	As of	Additions	Derecognitions	Transfers between stages	Changes in credit risk	Other	As of
	Jan 2022						Dec 2022
Stage 1	11	12	(4)	(2)	(12)	-	5
Stage 2	8	-	(4)	12	9	-	25
Defaulted	2	-	(2)	-	3	-	3
Total	**21**	**12**	**(10)**	**10**	**-**	**-**	**33**

One significant driver of the CLA movements for the year has been the transfer of the related instruments across different stages. The year-end notional amounts of loan commitments and financial guarantees that were assigned at 31 December 2023 to a different stage compared to 1 January 2023 (or to the initial recognition date, if originated during the year) are summarized below:

31. Development of credit loss allowances (continued)

Movement in credit loss allowances – loan commitments and financial guarantees (continued)

Transfers between stages – loan commitments and financial guarantees

	GROUP		BANK	
in EUR million	**2022**	**2023**	**2022**	**2023**
Transfers between Stage 1 and Stage 2	**292**	**200**	**265**	**184**
To Stage 2 from Stage 1	257	92	239	81
To Stage 1 from Stage 2	35	108	26	103
Transfers between Stage 2 and Stage 3	**2**	**2**	**2**	**2**
To Stage 3 from Stage 2	2	2	2	2
To Stage 2 from Stage 3	-	-	-	-
Transfers between Stage 1 and Stage 3	**2**	**-**	**1**	**-**
To Stage 3 from Stage 1	2	-	1	-
To Stage 1 from Stage 3	-	-	-	-

The year-end nominal amounts of unused off-balance commitments and financial guarantees that were initially recognised during the year 2023 and not fully derecognised by 31 December 2023 amounts to EUR 1,105 million for the Group and EUR 988 million for the Bank (2022: EUR 1,033 million for the Group and EUR 971 million for the Bank), of which changes in GCA that contributed to changes in credit loss allowances are result of significant contractual modification in the amount of EUR 33 million for the Group and for the Bank (2022: EUR 19 million for the Group and for the Bank) and purchases made during the reporting period in the amount of EUR 1 million for the Group and for the Bank (2022: EUR 1 million for the Group and for the Bank).

The nominal amounts of unused off-balance commitments or financial guarantees that were held at 1 January 2023 and fully de-recognised during the year 2023 amounts to EUR 408 million for the Group and EUR 371 million for the Bank (2022: EUR 426 million for the Group and EUR 371 million for the Bank), of which changes in GCA that contributed to changes in credit loss allowances are result of significant contractual modification in the amount of EUR 18 million for the Group and for the Bank (2022: EUR 15 million for the Group and for the Bank).

32. Scenarios used in forward looking information and Crises Effect

Overview on scenarios used in forward-looking information

Incorporation of forward-looking information

Parameters are determined to reflect the risk as a 'point-in-time' measure and with consideration of forward-looking information ('FLI'). This results in using a baseline forecast and a several alternative scenarios for selected macroeconomic variables. The alternative scenarios are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts. The baseline forecasts are, with a few exceptions, internally determined by Erste Group's research department. Given multiple scenarios, the 'neutral' PDs (and also LGDs, with a few exceptions) are adjusted through macro models which link relevant macroeconomic variables with risk drivers. Same macro-shift models as for external and internal stress test are employed. Forward looking information is incorporated for first three years of ECL measurement. Measurement of the remaining lifetime returns back to through the cycle observations immediately in year four.

Thus, the unbiased, probability weighted ECL considering FLI is derived with the weights representing the occurrence probabilities of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market. Nevertheless, main indication of the estimated economic development can be predicted through GDP development. In addition, economic effects of the war in Ukraine led to increases of the inflation and/or the interest rates. Macro-shift models were adjusted to reflect expected effects of those into credit risk parameters.

EBC group (except Erste Bank Podgorica) reviewed the FLI in the fourth quarter of 2023 according to the disclosed forecasts for baseline, downside and upside scenarios. Considering more stable macroeconomic forecasts than during previous year, EBC group (except Erste Bank Podgorica) decided to assign 50% scenario weight to baseline forecast (40% weight applied in December 2022). Moreover, following economic development, for centrally rated Group (Large) Corporate portfolio, the modelled weights for downside and upside scenarios were applied instead of expertly set weights applied in 2022. The approach with including the comprehensive stress test (CST) scenario into the downside scenario design is kept unchanged. However, the CST scenario was updated according to the assumptions considered in comprehensive stress test 2023.These model adjustments took place to address the still persisting uncertainty of the macroeconomic forecasts, higher downside risks and effects of those on ECL resulting from the unstable geopolitical situation.

The bank is disclosing sensitivity of the staging and ECL on macro scenarios in the "Collective assessment" section below.

Baseline scenario

EBC expects the Eurozone economy to gradually recover from the first half of 2024 onwards while Croatia maintained solid growth momentum in 2023 that is expected to prolong as well into 2024. The main factor supporting the constructive baseline outlook for the Croatia in 2024 is a further slight easing of inflationary pressures on a domestic and as well as on Eurozone and global level. European gas- and electricity prices have already dropped substantially and easing pressures from global supply chains have already eased inflationary pressures in recent months. Furthermore, in Croatia, the real wages recovered already in 2023 with figures heading into double-digit region towards the year-end 2023 and situation is expected to remain favorable also in 2024.
The expected end of global destocking in the course of 2024 should gradually improve the order situation and order backlogs of manufacturing companies. This should be another growth supportive factor during the first half of 2024. Erste Group forecasts that in this environment, a gradual acceleration of consumption and investments will be seen in the first half of 2024. In this environment the Erste Group expects the ECB to deliver the first rate cut in June 2024.

Risk to the baseline scenario and Comprehensive stress test scenario as considerations added to downside scenario

The fast rise of interest rates is a threat for the investment activity of companies and consumers and could lead to lower investments than currently anticipated for our base case scenario.
Current turmoil in the Red Sea area, which exerts pressure on container ship traffic between Europe and Asia could flare up again supply chain issues. This could translate into higher inflation than anticipated in our current base line scenario.

32. Scenarios used in forward looking information and Crises Effect (continued)

The fast rise of green energy investments adds volatility and instability to an already stretched and overloaded European power grid. Temporary pressure on the power grid from large swings in energy supply from green energy, could result in temporary price spikes for electricity which could harm industrial activity and the consumers purchasing power. The war in Ukraine remains significant risk factor. If it escalates further this could potentially harm the sentiment of global investors vs the Eurozone with potential dampening effects on growth. Russia could cut off gas supply to an increased number of "unfriendly" countries. Energy security becomes a priority for EU policymakers who regard the momentum to become less dependent from Russian commodities and to accelerate the transition to a low carbon economy. This goal triggers an energy policy shock, whereby the price of CO2 emissions skyrocket in the first year, crystalizing a disorderly transition risk. The energy policy shock exacerbates the increase in energy/consumer prices and de anchors inflation expectations; prompting the ECB to tighten monetary policy aggressively (affecting the entire yield curve) to keep inflation under control. Higher Harmonized Index of Consumer Prices (HICP), especially electricity/gas bills, reduces disposable income and contracts consumption. Given the high debt inherited from the pandemic, increasing military spending and expansive fiscal policies to mitigate higher energy prices/influx of refugees make investors to question debt sustainability.

Macro-shift FLI models are recalibrated regularly to reflect the most relevant macro-variables. Except central models for Group (Large) Corporate, the recalibration is performed by the EBC, and variables with the highest statistical relevance are included.

In the table below the expected development of GDP, as a main indicator of the macroeconomic situation and inflation for all scenarios in Croatia are disclosed. Disclosures are based on the relevancy in the macro-shift model.

Macro-shift models are calibrated for the three main sub-portfolios: private individuals, micro enterprises, and another corporate business. Models' calibration and variables disclosed below are incorporated into expected credit loss measurement as of 31 December 2023. The baseline and weighted scenario outcome for the major variables is disclosed in the tabular format for the years 2024-2026.

Baseline, upside and downside scenarios of GDP development

GDP growth in %	Scenario	Probability weight	2023	2024	2025	2026
2023						
Erste&Steiermärkische Bank d.d.	Upside	1%	2.6	4.3	5.2	4.9
	Baseline	50%	2.6	2.4	2.6	2.5
	Downside	49%	2.6	(2.0)	(1.2)	0.1
			2022	**2023**	**2024**	**2025**
2022						
Erste&Steiermärkische Bank d.d.	Upside	1%	5.5	3.2	4.7	6.1
	Baseline	40%	5.5	1.0	2.5	2.5
	Downside	59%	5.5	(3.9)	(1.0)	0.4

Baseline, upside and downside scenarios of the inflation development

Inflation in %	Scenario	Probability weight	2023	2024	2025	2026
2023						
Erste&Steiermärkische Bank d.d.	Upside	1%	8.1	2.1	(1.2)	0.4
	Baseline	50%	8.1	3.5	2.7	2.5
	Downside	49%	8.1	6.7	6.0	4.1
			2022	**2023**	**2024**	**2025**
2022						
Erste&Steiermärkische Bank d.d.	Upside	1%	10.5	5.5	2.2	1.7
	Baseline	40%	10.5	6.5	3.0	3.0
	Downside	59%	10.5	8.8	2.7	3.4

32. Scenarios used in forward looking information and Crises Effect (continued)

Collective assessment

As of December 2022, in addition to standard SICR assessment, EBC group applied stage overlays rules, i.e. transfer into Stage 2 based on pre-defined portfolio characteristics, due to the uncertainty caused by macroeconomic developments and geopolitical tensions affecting economic environment. This approach was aligned with all affected entities and business lines and approved by the respective governance bodies of Erste Group. It requires, after the assessment of the outliers from the common portfolio characteristics, to have exemptions from the collective SICR assessment, if properly documented why they would behave differently than the rest of the portfolio.

During the year 2022 credit loss allowances in the amount of EUR 5,3 million due to Covid-19 related overlay are released and no more Covid-19 based SICR assessment is applied.

Geopolitical tensions and subsequent effects on the economic environment

The geopolitical situation and tighter monetary policies have intensified challenges in the business environment.

In June 2022, EBC implemented rules for collective staging assessment due to the war in Ukraine (UA war overlays) as a combination of industries with correlation to economic downturn (cyclical industries) and one-year IFRS PD. EBC has identified the portfolio of industry sectors susceptible to being hit by the macro-economic environment based on cost inflation and interest rate increases leading to decreasing confidence levels on consumer as well as production side, and consequently a decrease in consumption and investments.

In addition to cyclical industries, from September 2022 EBC has introduced additional Energy stage overlay due to the current distortions in the energy market with implications on gas/energy availability and price. Two-folds effects were considered. Effects of energy prices and availability on clients either due to energy intensive production processes or relying on gas as a primary input in their business processes. Vulnerability is driven by gas dependency, (limited) substitution possibilities and implications of a substitution on financials, hedging and price mechanisms. Within the industry Natural Resources and Commodities, Metals and Chemical subindustries were identified as being most affected. Electricity demand in the European Union declined for the second consecutive year in 2023, even though energy prices fell from record highs. In 2023, there were also signs of some permanent demand destruction, especially in the energy-intensive chemical and primary metal production sectors. These segments will remain vulnerable to energy price shocks. All companies belonging to the Energy sector can potentially be affected by the distortions in the current energy market. However, certain business models in the energy sector rather benefit from the current situation and, thus, do not match the overall portfolio characteristics as energy sector is widely defined. Therefore, only selected NACE codes (production & distribution of energy and heating) are considered within SICR collective assessment and were migrated to Stage 2; and some individual companies were excluded in line with the requirements of IFRS 9 B.5.5.5

Out of the overall Bank's credit risk exposure of EUR 13 billion (2022: EUR 12.5 billion) portfolio under collective staging assessment represents:

— EUR 3 billion of cyclical industries, out of which EUR 483 million is in Stage 2 (thereof EUR 306 million triggered by collective SICR assessment only)

— EUR 789 million of energy intensive industries, out of which EUR 543 million is in Stage 2 (thereof EUR 521 million triggered by collective SICR assessment only)

In 2022, EBC assessed that the recalibration of private individuals' macro shift FLI model did not bring feasible results and does not sufficiently address current situation. Therefore, the additional SICR collective assessment on Private individual side was introduced. Therefore, Privetes clients with DSTI (Debt service to income) indicator greater than 50% and rating valid on relevant report date B2 or worse are classified as stage 2. It triggers additional stage 2 exposure of EUR 353 million as of 31 December 2023 and increase of allocated ECL by EUR 5 million.

In the following chapters, values and impacts in the tables are provided only for the Bank due to the materiality reasons.

32. Scenarios used in forward looking information and Crises Effect (continued)

The table below shows volumes across industries, as well as part that is classified as stage 2 due to rule for the cyclical industries category

Credit risk exposure and credit loss allowances by industry and IFRS9 treatment – cyclical industries

								BANK
in EUR million	Stage 1	Stage 2	Stage 3	POCI	Credit risk exposure (AC and FVOCI)	Not subject to IFRS 9 impairment	Total	Credit loss allowances
2023								
Natural Resources & Commodities	272	109	10	-	391	23	414	(11)
of which cyclical	-		-	-	-	-	-	
Energy	228	450	1	-	679	33	712	(15)
Construction and building materials	607	61	19	4	691	127	818	(22)
of which cyclical	-	46	-	5	51	-	51	(58)
Automotive	111	6	1	-	118	19	137	(1)
of which cyclical		4			4		4	-
Cyclical Consumer Products	266	30	12	-	308	46	354	(12)
Non-Cyclical Consumer Products	268	16	15		299	47	346	(1)
Machinery	141	14	-	-	155	44	199	(3)
of which cyclical		3			3		3	-
Transportation	736	35	4	1	776	13	789	(7)
of which cyclical		30			30		30	(1)
TMT and paper & packaging	126	16	1	-	143	17	160	(1)
of which cyclical		1			1		1	-
Healthcare & Services	240	41	2	-	283	41	324	(5)
of which cyclical		37			37		37	(2)
Hotels, Gaming & Leisure Industry	588	202	15	8	813	7	820	(31)
of which cyclical		122			122		122	(9)
Real Estate	791	51	18	7	867	2	869	(22)
of which cyclical		44			44		44	(4)
Public Sector	3,477	162	-	-	3,639		3,639	(10)
Financial Institutions	309	4	-	-	313	34	347	(2)
Private Households	2,587	677	125	1	3,390	-	3,390	(118)
Other	-	-	-	-	-	-	-	-
Total	**10,747**	**1,874**	**223**	**21**	**12,865**	**453**	**13,318**	**(261)**
of which cyclical (including Cyclical Consumer Products)		**306**	**12**	**5**	**600**	**46**	**646**	**(86)**
2022								
Natural Resources & Commodities	258	131	14	-	403	7	410	(15)
Energy	-	685	1	-	686	68	754	(28)
Construction and building materials	410	120	25	5	560	158	718	(33)
Automotive	82	16	3	-	101	10	111	(4)
Cyclical Consumer Products	272	48	13	1	334	46	380	(13)
Non-Cyclical Consumer Products	225	14	16	2	257	42	299	(15)
Machinery	100	16	2	2	120	41	161	(2)
Transportation	636	52	6	1	695	3	698	(10)
TMT and paper & packaging	141	10	1	-	152	21	173	(3)
Healthcare & Services	225	19	5	-	249	40	289	(6)
Hotels, Gaming & Leisure Industry	544	238	16	9	807	10	817	(33)
Real Estate	666	55	9	8	738	4	742	(19)
Public Sector	3,501	302	-	-	3,803	1	3,804	(18)
Financial Institutions	293	1	-	-	294	40	334	(4)
Private Households	2,111	655	128	1	2,895	-	2,895	(112)
Other	-	-	-	-	-	-	-	-
Total	**9,464**	**2,362**	**239**	**29**	**12,094**	**491**	**12,585**	**(315)**

32. Scenarios used in forward looking information and Crises Effect (continued)

Effect on Expected Credit Loss

The analysis tables below present the effects of the collective SICR assessment and FLI on both exposure migration to Stage 2 and the resulting increase of ECL. Additional sensitivities to the baseline, upside and downside scenarios are simulated. Effects per industries category are disclosed.
In December 2023, the exposure in Stage 2 due to the application of the rules for Ukraine war collective SICR assessment stood for cyclical industries at EUR 306 million and for energy (intensive) industries at EUR 521 million (2022: EUR 767 million), with additional ECL allocated in the amount of EUR 13 million for cyclical industries and EUR 9 million (2022: EUR 22 million) for energy (intensive) industries.
As described above, FLI were reassessed based on the latest macro-scenarios in the fourth quarter of 2023. Considering the review of in-model adjustments (change the weight assigned to baseline scenario from 40% to 50%), the Stage 2 exposure triggered by FLI increased to EUR 98 million as of December 2023 (2022: EUR 12 million). The change of the Stage 2 exposure and PD levels affected the level of ECL allocated in Stage 2 due to FLI: EUR 13 million as of December 2023 versus EUR 30 million as of December 2022.
Scenario simulation presents sensitivity analyses taking into consideration only changes due to the different values of PDs, if baseline, upside or downside FLI scenarios had 100% weight. Sensitivities of these scenarios are calculated in comparison to current production - weighted scenarios FLI shifted - PDs (weights and scenarios are disclosed in the ”Incorporation of forward-looking information” section above). Both staging and resulting ECL were simulated with the scenario PDs.
The incorporation of 100% baseline scenario instead of the currently applied weighted scenario outcome would lead to a decrease of Stage 2 exposure by EUR 1 million (2022: EUR 1 million), resulting in insignificant ECL change (less then EUR 1 million). The downside scenario would lead to additional EUR 5 million of exposure migration to Stage 2 in comparison with scenario weighted FLI (2022: EUR 2 million), resulting in insignificant ECL increase (less then EUR 1 million).
For the ECL change a positive sign (+) equals a release while a negative sign (-) equals an allocation. Values presented sensitivities are results of internal simulations.

Forward looking information (FLI) and stage overlays due to the Energy crisis

Impact on credit risk exposure

									BANK
	Current status - parameters (FLI shifted)						Simulations - difference to FLI shifts effect		
	Stage 1	Stage 2	Total	Stage 2 affected by			Upside scenario	Baseline scenario	Downside scenario
in EUR million				Cyclical overlay	Energy overlays	FLI shifts			
2023									
Erste&Steiermärkische Bank d.d.	10,747	1,874	12,621	306	521	95	4	1	(5)
2022									
Erste&Steiermärkische Bank d.d.	9,464	2,362	11,826	-	767	12	3	1	(2)

Impact on credit loss allowances

									BANK
	Current status - parameters (FLI shifted)						Simulations - difference to FLI shifts effect		
	Stage 1	Stage 2	Total	out of which:			Upside scenario	Baseline scenario	Downside scenario
in EUR million				Effect of Cyclical overlay	Effect of Energy overlays	Effect of FLI shifts			
2023									
Erste&Steiermärkische Bank d.d.	(25)	(83)	(108)	13	9	13	1	-	-
2022									
Erste&Steiermärkische Bank d.d.	(27)	(115)	(142)	-	22	30	6	3	(2)

32. Scenarios used in forward looking information and Crises Effect (continued)

Impact on credit risk exposure by industry

						BANK
	Current status - parameters (FLI shifted)		Effect of Energy overlays		Point in time parameters (before FLI shift)	
in EUR million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
2023						
Natural Resources & Commodities	272	109	355	26	273	108
of which cyclical	-		-		-	
Energy	228	450	666	12	229	450
Construction and building materials	607	61	607	61	626	42
of which cyclical	-	46	-	46	19	27
Automotive	111	6	111	6	112	5
of which cyclical		4		4	-	3
Cyclical Consumer Products	266	30	266	30	269	27
Non-Cyclical Consumer Products	268	16	268	16	268	16
Machinery	141	14	141	14	142	12
of which cyclical		3		3	1	2
Transportation	736	35	736	35	742	29
of which cyclical		30		30	6	24
TMT and paper & packaging	126	16	126	16	127	15
of which cyclical		1		1	-	1
Healthcare & Services	240	41	240	41	270	11
of which cyclical		37		37	31	6
Hotels, Gaming & Leisure Industry	588	202	588	202	606	184
of which cyclical		122		122	18	105
Real Estate	791	51	791	51	796	46
of which cyclical		44		44	5	39
Public Sector	3,477	162	3,477	162	3,477	162
Financial Institutions	309	4	309	4	310	3
Private Households	2,587	677	2,587	677	2,595	669
Other	-	-	-	-	-	-
Total	**10,747**	**1,874**	**11,268**	**1,353**	**10,842**	**1,779**
2022						
Natural Resources & Commodities	258	131	354	35	259	130
Energy	-	685	671	13	-	683
Construction and building materials	410	120	410	120	410	120
Automotive	82	16	82	16	82	16
Cyclical Consumer Products	272	48	272	48	272	48
Non-Cyclical Consumer Products	225	14	225	14	226	13
Machinery	100	16	100	16	100	16
Transportation	636	52	636	52	637	51
TMT and paper & packaging	141	10	141	10	144	8
Healthcare & Services	225	19	225	19	227	18
Hotels, Gaming & Leisure Industry	544	238	544	238	544	238
Real Estate	666	55	666	55	666	55
Public Sector	3,501	302	3,501	302	3,501	302
Financial Institutions	293	1	293	1	293	1
Private Households	2,111	655	2,111	656	2,115	652
Other	-	-	-	-	-	-
Total	**9,464**	**2,362**	**10,231**	**1,595**	**9,476**	**2,351**

32. Scenarios used in forward looking information and Crises Effect (continued)

Impact on credit loss allowances by industry

						BANK
	Current status - parameters (FLI shifted)		Effect of Energy overlays		Point in time parameters (before FLI shift)	
in EUR million	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2
2023						
Natural Resources & Commodities	(1)	(2)	(2)	(1)	(1)	(2)
of which cyclical						
Energy	(2)	(12)	(4)	(1)	(2)	(12)
Construction and building materials	(2)	(3)	(2)	(3)	(2)	(2)
of which cyclical	-	(2)	-	(2)	-	(1)
Automotive	-	-	-	-	-	-
of which cyclical						
Cyclical Consumer Products	(1)	(3)	(1)	(3)	(1)	(2)
Non-Cyclical Consumer Products	(1)	-	(1)	-	(1)	-
Machinery	-	(3)	-	(3)	-	(3)
of which cyclical						
Transportation	(2)	(2)	(2)	(2)	(1)	(1)
of which cyclical	-	(1)	-	(1)	-	(1)
TMT and paper & packaging	(1)	-	(1)	-	(1)	-
of which cyclical						
Healthcare & Services	(1)	(2)	(1)	(2)	(1)	(1)
of which cyclical		(2)		(2)	-	-
Hotels, Gaming & Leisure Industry	(2)	(16)	(2)	(16)	(2)	(13)
of which cyclical		(9)		(9)	-	(6)
Real Estate	(3)	(4)	(3)	(4)	(3)	(4)
of which cyclical	-	(4)	-	(4)	-	(3)
Public Sector	(1)	(9)	(1)	(9)	(1)	(7)
Financial Institutions	(2)	-	(2)	-	(2)	-
Private Households	(6)	(27)	(6)	(27)	(5)	(25)
Other	-	-	-	-	-	-
Total	**(25)**	**(83)**	**(28)**	**(71)**	**(23)**	**(72)**
2022						
Natural Resources & Commodities	(2)	(4)	(3)	(2)	(1)	(3)
Energy	-	(26)	(5)	(2)	-	(23)
Construction and building materials	(2)	(8)	(2)	(8)	(1)	(5)
Automotive	-	(1)	-	(1)	-	(1)
Cyclical Consumer Products	(1)	(3)	(1)	(3)	(1)	(2)
Non-Cyclical Consumer Products	(2)	(1)	(2)	(1)	(1)	-
Machinery	-	(1)	-	(1)	-	(1)
Transportation	(2)	(4)	(2)	(5)	(2)	(3)
TMT and paper & packaging	(1)	(1)	(1)	(1)	(1)	-
Healthcare & Services	(2)	(2)	(2)	(2)	(1)	(1)
Hotels, Gaming & Leisure Industry	(2)	(20)	(2)	(19)	(2)	(16)
Real Estate	(3)	(5)	(3)	(5)	(3)	(3)
Public Sector	(1)	(17)	(1)	(16)	(1)	(14)
Financial Institutions	(4)	-	(4)	-	(3)	-
Private Households	(5)	(22)	(5)	(22)	(4)	(20)
Other	-	-	-	-	-	-
Total	**(27)**	**(115)**	**(33)**	**(88)**	**(21)**	**(92)**

33. Restructuring, renegotiation and forbearance

Restructuring means contractual modification of any of the customer's loan repayment conditions including tenor, interest rate, fees, principle amount due or a combination thereof. Restructuring can be business restructuring (in retail) and commercial renegotiation (in corporate) or forbearance in line with EBA requirements in both segments.

Business restructuring and renegotiation

Restructuring as business restructuring in the retail segment or as commercial renegotiation in the corporate segment is a potential and effective customer retention tool involving repricing or the offering of an additional loan or both in order to maintain the Bank's valuable, good clientele.

Forbearance

In case the restructuring entails a concession towards a customer facing or about to face financial difficulties in meeting their contractual financial commitments, the restructuring is considered forbearance.
Forborne exposure is assessed at loan contract level and means only the exposure to which forbearance measures have been extended and excludes any other exposure the customer may have, as long as no forbearance was extended to these.

Concession means that any of the following conditions are met:
- Modification/refinancing of the contract would not have been granted, had the customer not been in financial difficulty,
- There is a difference in favour of the customer between the modified/refinanced and the previous terms of the contract,
- The modified/refinanced contract includes more favourable terms than other customers with similar risk profile could have obtained from the Bank.

Forbearance can be initiated by the Bank or by the customer (on account of loss of employment, illness etc.).

Forbearance measures are divided and reported as:
- Performing forbearance (incl. performing forbearance under probation that was upgraded from non-performing forbearance)
- Non-performing forbearance.

In the table below, comparison of forbearance and credit risk exposure and allowances is given for the Bank and the Group for 31 December 2023 and 31 December 2022.

Credit risk exposure, forbearance exposure and credit loss allowances

					GROUP
in EUR million	Loans and receivables	Debt securities	Loan commitments	Other positions	Total
2023					
Gross exposure	**9,509**	**2,958**	**1,099**	**1,422**	**14,988**
thereof gross forborne exposure	179	-	-	-	179
Performing exposure	9,226	2,958	1,097	1,417	14,698
thereof performing forborne exposure	99	-	-	-	99
Credit loss allowances for performing exposure	(111)	(4)	(7)	(7)	(129)
thereof credit loss allowances for performing forborne exposure	(11)	-	-	-	(11)
Non-performing exposure	283	-	2.00	5	290
thereof non-performing forborne exposure	80	-	-	-	80
Credit loss allowances for non-performing exposure	(191)	-	-	(3)	(194)
thereof credit loss allowances for non-performing forborne exposure	(45)	-	-	-	(45)

33. Restructuring, renegotiation and forbearance (continued)

Credit risk exposure, forbearance exposure and credit loss allowances (continued)

GROUP					
in EUR million	Loans and receivables	Debt securities	Loan commitments	Other positions	Total
2022					
Gross exposure	**8,997**	**2,670**	**1,646**	**847**	**14,160**
thereof gross forborne exposure	216	-	1	-	217
Performing exposure	8,690	2,670	1,642	842	13,844
thereof performing forborne exposure	129	-	1	-	130
Credit loss allowances for performing exposure	(123)	(10)	(23)	(9)	(165)
thereof credit loss allowances for performing forborne exposure	(13)	-	-	-	(13)
Non-performing exposure	307	-	4	5	316
thereof non-performing forborne exposure	87	-	-	-	87
Credit loss allowances for non-performing exposure	(202)	-	-	(3)	(205)
thereof credit loss allowances for non-performing forborne exposure	(42)	-	-	-	(42)

BANK					
in EUR million	Loans and receivables	Debt securities	Loan commitments	Other positions	Total
2023					
Gross exposure	**8,225**	**2,855**	**942**	**1,298**	**13,320**
thereof gross forborne exposure	163	-	-	-	163
Performing exposure	7,991	2,855	940	1,292	13,078
thereof performing forborne exposure	97	-	-	-	97
Credit loss allowances for performing exposure	(95)	(4)	(6)	(8)	(113)
thereof credit loss allowances for performing forborne exposure	(11)	-	-	-	(11)
Non-performing exposure	234	-	2	6	242
thereof non-performing forborne exposure	66	-	-	-	66
Credit loss allowances for non-performing exposure	(158)	-	-	(1)	(159)
thereof credit loss allowances for non-performing forborne exposure	(37)	-	-	-	(37)

BANK					
in EUR million	Loans and receivables	Debt securities	Loan commitments	Other positions	Total
2022					
Gross exposure	**7,841**	**2,573**	**1,445**	**724**	**12,583**
thereof gross forborne exposure	195	-	1	-	196
Performing exposure	7,584	2,573	1,442	719	12,318
thereof performing forborne exposure	122	-	1	-	123
Credit loss allowances for performing exposure	(101)	(9)	(22)	(9)	(141)
thereof credit loss allowances for performing forborne exposure	(13)	-	-	-	(13)
Non-performing exposure	257	-	3	5	265
thereof non-performing forborne exposure	73	-	-	-	73
Credit loss allowances for non-performing exposure	(170)	-	-	(2)	(172)
thereof credit loss allowances for non-performing forborne exposure	(38)	-	-	-	(38)

33. Restructuring, renegotiation and forbearance (continued)

Impact of non-significant contractual modifications of debt instruments AC assigned to Stage 2 and 3

				GROUP
		2022		2023
in EUR million	Amortised cost before the modification	Net Modification gains/ losses	Amortised cost before the modification	Net Modification gains/ losses
Loans and advances				
General governments	-	-	-	-
Non-financial corporations	3	-	5	-
Households	8	-	6	-
Total	**11**	**-**	**11**	**-**

				BANK
		2022		2023
in EUR million	Amortised cost before the modification	Net Modification gains/ losses	Amortised cost before the modification	Net Modification gains/ losses
Loans and advances				
General governments	-	-	-	-
Non-financial corporations	3	-	4	-
Households	8	-	6	-
Total	**11**	**-**	**10**	**-**

As at 31 December 2023, the total GCA of debt instruments measured at AC, which were impacted by non-significant contractual modifications during the year 2023 amounted to EUR 11 million for the Group and EUR 10 million for the Bank (2022: EUR 11 million for the Group and EUR the Bank).

The impact of contractual modifications (net modification losses) in the profit or loss of the year 2023 amounted loss in the amount of EUR 88 thousand for the Group and profit in the amount of EUR 21 thousand for the Bank (2022: EUR 15 thousand for the Group and EUR 44 thousand for the Bank).

34. Collaterals

Recognition of collateral
The Collateral Management unit is integrated in the Risk Management Division. The Collateral Management Policy defines, among other topics, uniform valuation standards for credit collateral across the entire Bank. It ensures that the credit risk decision processes are standardised with respect to accepted collateral values.

All collateral types acceptable within the Bank are defined by internal acts. The valuation and revaluation of collateral is done according to the principles defined in the Collateral Management Policy broken down by collateral type in accordance with the individual supervisory requirements.

Main types of credit collateral
Mostly, the following types of credit collateral are accepted:

_Real estate: residential and commercial real estate
_Financial collateral: securities portfolios, cash deposits and life insurance policies
_Guarantees: given by sovereigns, public sector entities and financial institutes. All guarantors must have a minimum credit quality, in accordance with regulatory requirements.

34. Collaterals (continued)

The Bank also accepts other collaterals such as movables, balance sheet netting, investment fund shares in accordance with European (EU) and local regulations.

Collateral valuation and management

Collateral valuation is based on current market prices while taking into account an amount that can be recovered within a reasonable period.
When calculating collateral coverage, the amount of coverage is adjusted through corrective factors, depending on the collateral type. Coverage by collateral disclosed in the financial statements is capped to the amount of relevant exposure.

Real estate valuation may only be performed by qualified valuators who are independent of the credit decision process. The valuation is to be made according to international, European or national standards. Internal guidelines define criteria of qualification and requirements of independence for the selection of valuators. A valuator may only perform two sequential valuations of the same asset, any further valuation has to result in the rotation of the valuator.

Impact of the energy efficiency, ESG data, i.e. information on energy efficiency of the collateral assets are systematically collected and stored in the relevant systems for documentation and reporting purposes.

The methods and discounts used for valuations are based on empirical data representing past experience of the Collection and Workout department and on the collected data on loss recovery from realising collateral. The valuation methods are adjusted regularly – at least once a year.

The revaluation of collateral is done periodically and is automated as far as possible. In the case of external data sources, the appropriate interfaces are used. The maximum periods for the revaluation of individual collateral assets are predefined. Apart from periodic revaluations, collateral is assessed when information becomes available that indicates a decrease in the value of the collateral for exceptional reasons.

The Bank performs regular annual concentration risk assessment which comprises an overview of credit risk mitigation techniques, but also a market risk overview from a perspective of received collaterals.

Repossession of Collaterals is highly selective and restrictive, while the assets repossessed made available for sale right away. In general, the Bank does not occupy repossessed properties for its own business use. Commercial assets slightly prevail over the Residential assets within the repossessed assets portfolio. The portfolio has been strongly reduced within the last years, as of 31 December 2023, the carrying value of the repossessed assets portfolio amounted to EUR 11 million.

Treasury collateral

The department Market and Liquidity Risk Management is responsible for treasury collateral framework. The Treasury Collateral Management Policy defines, among other things, uniform valuation standards for treasury collateral in the Bank. Under the framework of treasury collateral, netting agreements (international framework agreements for derivatives of the International Swap and Derivatives Association (ISDA), local framework agreements, framework agreements for securities lending and repurchase deals) as well as collateral agreements (e.g. ISDA Credit Support Annex) are used for reducing the credit risk from derivatives.

Netting agreements make it possible to net all amounts due or payable for each individual transaction under a framework agreement in the case of a credit default, with the result that only the net receivables vis-à-vis the business partner are of relevance for credit risk. Within the scope of these collateral agreements, the portfolio with the respective counterparty is revalued periodically, usually daily, and in case of insufficient coverage additional collateral is requested. The policy restrictions on collateral types ensure that collateral received predominantly consists of cash or securities of investment grade quality. In the case of securities used as collateral, an additional valuation discount (haircut) depending on credit quality and residual maturity is applied.

34. Collaterals (continued)

Credit risk exposure by financial instrument and collateral

GROUP

in EUR million	Total credit risk exposure	Collateral total	Collateralised by Guarantees	Collateralised by Real estate	Collateralised by Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2023									
Other demand deposits to credit institutions	46	-	-	-	-	46	4	42	-
Instruments HfT	23	-	-	-	-	23	-	-	-
Non-trading debt instruments at FVPL	6	-	-	-	-	6	-	-	-
Debt instruments at FVOCI	1,148	-	-	-	-	1,148	1,148	-	-
Debt instruments at AC	10,641	4,022	895	2,767	360	6,619	10,200	179	262
Debt securities	1,804	-	-	-	-	1,804	1,804	-	-
Loans and advances to banks	68	13	-	-	13	55	68	-	-
Loans and advances to customers	8,769	4,009	895	2,767	347	4,760	8,328	179	262
Trade and other receivables	185	12	-	1	11	173	157	15	13
Finance lease receivables	487	419	4	-	415	68	391	90	6
Off balance-sheet exposures	2,452	288	1	169	118	2,164	1,952	43	8
Total	**14,988**	**4,741**	**900**	**2,937**	**904**	**10,247**	**13,852**	**369**	**289**

GROUP

in EUR million	Total credit risk exposure	Collateral total	Collateralised by Guarantees	Collateralised by Real estate	Collateralised by Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2022									
Other demand deposits to credit institutions	89	-	-	-	-	89	28	61	-
Instruments HfT	26	-	-	-	-	26	-	-	-
Non-trading debt instruments at FVPL	5	-	-	-	-	5	-	-	-
Debt instruments at FVOCI	1,334	-	-	-	-	1,334	1,334	-	-
Debt instruments at AC	9,733	3,827	930	2,571	326	5,906	9,252	198	283
Debt securities	1,331	-	-	-	-	1,331	1,331	-	-
Loans and advances to banks	384	19	-	-	19	365	384	-	-
Loans and advances to customers	8,018	3,808	930	2,571	307	4,210	7,537	198	283
Trade and other receivables	189	13	-	1	12	176	159	15	15
Finance lease receivables	406	330	4	-	326	76	315	82	9
Off balance-sheet exposures	2,378	255	1	140	114	2,123	1,809	78	7
Total	**14,160**	**4,425**	**935**	**2,712**	**778**	**9,735**	**12,897**	**434**	**314**

34. Collaterals (continued)

Credit risk exposure by financial instrument and collateral (continued)

BANK									
			Collateralised by						
in EUR million	Total credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2023									
Other demand deposits to credit institutions	12	-	-	-	-	12	1	11	-
Instruments HfT	23	-	-	-	-	23	-	-	-
Non-trading debt instruments at FVPL	6	-	-	-	-	6	-	-	-
Debt instruments at FVOCI	1,091	-	-	-	-	1,091	1,091	-	-
Debt instruments at AC	9,868	3,751	885	2,522	344	6,117	9,495	145	228
Debt securities	1,758	-	-	-	-	1,758	1,758	-	-
Loans and advances to banks	31	12	-	-	12	19	31	-	-
Loans and advances to customers	8,079	3,739	885	2,522	332	4,340	7,706	145	228
Trade and other receivables	115	12	-	1	11	103	106	3	6
Off balance-sheet exposures	2,205	262	1	151	110	1,943	1,732	43	7
Total	**13,320**	**4,025**	**886**	**2,674**	**465**	**9,295**	**12,425**	**202**	**241**

BANK									
			Collateralised by						
in EUR million	Total credit risk exposure	Collateral total	Guarantees	Real estate	Other	Credit risk exposure net of collateral	Neither past due nor credit impaired	Past due but not credit impaired	Credit impaired
2022									
Other demand deposits to credit institutions	24	-	-	-	-	24	2	22	-
Instruments HfT	26	-	-	-	-	26	-	-	-
Non-trading debt instruments at FVPL	5	-	-	-	-	5	-	-	-
Debt instruments at FVOCI	1,278	-	-	-	-	1,278	1,278	-	-
Debt instruments at AC	9,008	3,564	917	2,331	316	5,444	8,603	154	251
Debt securities	1,290	-	-	-	-	1,290	1,290	-	-
Loans and advances to banks	345	19	-	-	19	326	345	-	-
Loans and advances to customers	7,373	3,545	917	2,331	297	3,828	6,968	154	251
Trade and other receivables	123	13	-	1	12	110	115	2	6
Off balance-sheet exposures	2,119	230	1	127	102	1,889	1,579	75	6
Total	**12,583**	**3,807**	**918**	**2,459**	**430**	**8,776**	**11,577**	**253**	**263**

The collateral attributable to exposures that are credit-impaired as of 31 December 2023 amounts to EUR 113 million (2022: EUR 120 million) in the Group and EUR 90 million as of 31 December 2023 (2022: EUR 103 million) in the Bank.

35. Market risk

Definition and overview

Market risk is the risk of loss that may arise due to adverse changes in market prices and to the parameters derived therefrom. Market risk is divided into interest rate risk, credit spread risk, currency risk, equity risk and volatility risk. This concerns both trading and banking book positions.

Methods and instruments employed

Potential losses that may arise from market movements are assessed using the Value at Risk (VaR). The calculation is done according to the method of historic simulation with a one-sided confidence level of 99%, a holding period of one day and a simulation period of two years. The VaR describes what level of losses may be expected as a maximum at a defined probability – the confidence level – within a certain holding period of the positions under normal market conditions.

Back-testing is used to constantly monitor the validity of the statistical methods. This process is conducted with a one-day delay to monitor if the model projections regarding losses have actually materialised. At a confidence level of 99%, the actual loss on a single day should exceed the VaR statistically only two to three times a year (1% of around 250 workdays).

This shows one of the limits of the VaR approach: on the one hand, the confidence level is limited to 99%, and on the other hand, the model takes into account only those market scenarios observed in each case within the simulation period of two years and calculates the VaR for the current position of the Bank on this basis. In order to investigate any extreme market situations beyond this, stress tests are conducted at the Bank. These events include mainly market movements of low probability.

The stress tests are carried out according to several methods: stressed VaR (SVaR) is derived from the normal VaR calculation. But instead of simulating only over the two most recent years, an analysis of a much longer period is carried out in order to identify a one-year period that constitutes a relevant period of stress for the current portfolio mix. According to the legal framework, that one-year period is used to calculate a VaR with a 99% confidence level. This enables the Bank on the one hand to hold sufficient own funds available for the trading book also in periods of elevated market volatility, while on the other hand also enabling it to incorporate these resulting effects in the management of trading positions.

Standard scenarios are defined in which selected market factors are exposed to extreme movements. Such scenarios are calculated at the Bank for interest rates, stock prices, exchange rates and volatilities. Historic scenarios are a modification of the concept of standard scenarios. In this case, risk factor movements after certain events such as “Covid-19 crisis” or “Lehman bankruptcy” form the basis of the stress calculation. In order to calculate historical probabilistic scenarios, the most significant risk factors for the current portfolio are determined and their most adverse movement during the last years is applied. For the probabilistic scenarios shifts of important market factors are determined for various quantiles of their distributions, and these values are then used to calculate stress results. These analyses are made available to the Management Board and the Supervisory Board within the scope of the monthly market risk reports.

For the local capital requirements, the Bank and the Group are using the standardized model.

Methods and instruments of risk mitigation

The Bank manages market risks in the trading book by setting several layers of limits. The overall limit based on VaR for the trading book is decided by the Management Board while taking into account the risk-bearing capacity and projected earnings. A further breakdown is done by the Management Board and Market Risk Committee based on a proposal from the Market Risk Management unit.

35. Market risk (continued)

All market risk activities of the trading book are assigned risk limits that are entirely consistent with the overall RWA limit. The RWA limit is assigned in a top-down procedure to the individual trading units. This is done up to the level of the individual trading groups or departments. Additionally, in a bottom-up procedure, sensitivity limits are assigned on trading desk level in order to control exposures to individual risk drivers and ensure sufficient diversification. These are then aggregated upwards and applied as a second limit layer to the VaR and SVaR limits . The consistency between the two limit approaches is verified regularly.
Limit compliance is verified at two levels: by the Market and Liquidity Risk Management Department in the Bank and by the Trading Book Risk Group. The monitoring of the limits is done within the course of the trading day based on sensitivities.
The VaR is calculated daily and is available and reported to the individual trading units as well as to the superior management levels all the way up to the Management Board.

Certain banking book positions are subjected to a daily VaR analysis. The total VaR is determined in the same manner as the VaR for the trading book.

Analysis of market risk

Value at Risk of banking book and trading book
The following tables show the Bank's VaR amounts as at 31 December 2023 and 31 December 2022 respectively at the 99% confidence level using equally weighted market data and with a holding period of one day. Bank is the only entity in EBC Group that has trading book and, also, single entity which uses Kondor+ as data source for VaR calculation.

Value at Risk of banking book and trading book 2023

in EUR thousand	Total	Interest	Currency	Shares	Volatility
Position held in non-Trading Book	2,227	2,221	25	-	37
Fair Value Through Other Comprehensive Income	3,215	3,215	8	-	2
Held for Trading	12	13	1	-	-

Value at Risk of banking book and trading book 2022

in EUR thousand	Total	Interest	Currency	Shares	Volatility
Position held in non-Trading Book	2,723	2,718	78	-	49
Fair Value Through Other Comprehensive Income	3,931	3,932	6	-	1
Held for Trading	6	6	-	-	-

Interest rate risk of banking book

Interest rate risk is the risk of an adverse change in both the earnings and economic value of financial instruments caused by a movement in market interest rates. This type of risk arises when mismatches exist between assets and liabilities, including derivatives, in respect of their maturities or of the timing of interest rate adjustments.
In order to identify interest rate risk, all interest bearing financial instruments, including off-balance are used to calculate the impact of certain interest rate scenarios on their economic value and their earnings. Limits and thresholds are implemented for both aspects of the IRRBB, the change in economic value as well as the change in earnings. Positions without contractually defined maturity or repricing structures, such as demand deposits or overdrafts are modelled accordingly, for positions where the customer has the right to prepay his debt prepayment models are applied.
For internal risk calculations and for the regulatory interest rate risk measures, the maximum downward shock is floored according to the Annex III of the EBA guidelines on the management of interest rate risk arising from non-trading activities (EBA/RTS/2022/10). With increasing yield curves, especially in EUR, USD and CZK, these embedded floors have become less relevant.
Interest rate risk calculations are done in accordance with EBA (EBA/RTS/2022/10) guidelines.

Exchange rate risk

The Bank is exposed to several types of risks related to exchange rates. These concern risks from open foreign exchange positions and others.

35. Market risk (continued)

Risk from open currency positions is the risk related to exchange rates that derives from the mismatch between assets and liabilities, or from currency-related financial derivatives. These risks might originate from customer-related operations or proprietary trading and are monitored and managed on a daily basis. Foreign currency exposure is subject to regulatory and internal limits. The internal limits are approved by the Management Board and the Market Risk Committee.

The following table shows the largest open exchange rate positions of the Bank as of 31 December 2023 and the corresponding open positions of these currencies as of 31 December 2022.

Open exchange rate positions

in EUR thousand	2022.	2023.
US Dollar (USD)	(4,127)	(1,245)
Forint (HUF)	(28)	(57)
Serbian Dinar (RSD)	(42)	(45)
Danish Krone (DKK)	67	40
Pound Sterling (GBP)	47	39
Norwegian Krone (NOK)	66	36
Swedish Krona (SEK)	36	32
Australian Dollar (AUD)	74	25
Romanian Leu (RON)	54	24

Bank manages open FX risk positions according to its strategy and the aim is not to have significant exposures to FX risk. In cases of open FX position, above 2% of regulatory capital, Bank calculates capital charge for FX risk.

Credit spread risk

Credit spread risk is the risk of an adverse movement in the fair value of financial instruments caused by a change in the creditworthiness of an issuer perceived by the market. EBC Group is exposed to credit spread risk with respect to its securities portfolio in the banking book.

Quantifying the credit spread risk of the securities in the banking book is based on a historical simulation. The maximum (hypothetical) drawdown that can be attributed to credit related risk factors over one-year horizon is calculated. It is based on credit spread sensitivities (CR01) and the risk factors used are mainly asset swap spreads for sovereigns and iTRAXX CDS indices for financials and corporates. The resulting amount is used as part of the ICAAP calculations to determine the capital consumption of the banking book portfolio.

36. Liquidity risk

Definition and overview

The liquidity risk in the Bank is defined in line with the principles set out by the Basel Committee on Banking Supervision as well as the Regulation (EU) No 575/2013 (CRR) amended by the Regulation (EU) No 2019/876 (CRR 2), Commission Delegated Regulation (EU) 2022/786 amending Commission Delegated Regulation (EU) 2015/61 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council and the Decision on governance arrangements by Croatian National Bank. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Bank cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the Bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition.
Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Bank’s own refinancing cost or spread.
The Bank continues its ongoing project activities to improve the framework for liquidity risk reporting. Current projects are aimed at continuously improving the internal stress testing methodology and the data quality used in the risk measurement.

Liquidity strategy

After a period of strong growth of the deposit base starting from 2020, in 2023 the Bank recorded slight growth in deposits supported primarily by the growth of deposit base of corporate clients. Client deposits remain the Bank's primary source of financing, which is in line with the Bank's strategy. On the asset side, the volume of loans also recorded significant growth, above the level of deposit growth. The abmentioned developments have resulted in a decrease in liquidity excess, which is still significantly above the regulatory and internal limits. The entire decline in liquidity excess was recorded in a decrease of the position deposits with the central bank, while the portfolio of highly liquid government bonds records further growth.

In June 2023, the Bank issued a three-year MREL eligible bond intended for retail investors on the local market in the amount of EUR 90.1 million. At the end of November 2023, a bond with a volume of EUR 39.8 million (issued HRK 300 million), issued in 2018 on the local market, was repaid at its regular maturity. The Bank's liquidity excess in 2023 was also used to repay EUR 69.7 million of long-term financing from supranational institutions (EUR 19.7 million at regular maturity, EUR 50 million prematurely) and EUR 30 million of subordinated intra-group borrowing.

Liquidity ratios

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) have been implemented as ratios relevant for regulatory purposes, in line with the Commission Delegated Regulation (EU) 2022/786 amending Commission Delegated Regulation (EU) 2015/61 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council (LCR DA) and Regulation (EU) No 575/2013 (CRR) amended by the Regulation (EU) No 2019/876 (CRR 2). The LCR represents a ratio of highly liquid assets on the one hand and net cash outflows over a 30 day time horizon on the other. The minimum ratio has been set at 100%. NSFR, binding minimum requirement according to the CRR II, represents a ratio of available stable funding on the one hand and required stable funding on the other, within a 12 month time horizon

Methods and instruments used for measurement of liquidity risk

The short-term insolvency risk is monitored by calculating the survival period in total and for major currencies. This analysis determines the maximum period during which the entity can survive a set of defined scenarios, including a severe combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time significant client deposit outflow. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of the customer, as well as the potential outflows from collateralised derivative transactions by estimating the effect from collateral outflow in the case of adverse market movements.
Regulatory liquidity risk reporting is done on solo Bank level. Liquidity risk reporting requirements don't apply to Erste Leasing and Erste Card Club. EU reporting requirement don‘t apply to Erste Bank Podgorica as well. However, Erste Bank Podgorica is consolidated on overall Este Group level.

36. Liquidity risk (continued)

The Bank's liquidity risk control has been based on the new Basel III liquidity risk measures, especially Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Internally, the ratios are monitored on the Bank and Group of credit institutions level and are part of the Risk Appetite Statement (RAS) targeting to be well above the regulatory requirements and are reported to the Operational Liquidity Committee (OLC) as well as to the management board during the Asset and Liability Committee (ALCO). Liquidity Coverage Ratio (LCR) is monitored daily. At the end of 2023, both LCR and NSFR for the Bank were above 100%.
Additionally, the traditional liquidity gaps (depicting the going concern maturity mismatches) of the Bank are reported and monitored regularly, as part of the Structural liquidity ratio (STRL). Funding concentration risk is continuously analysed in respect to counterparties. The Bank's fund transfer pricing (FTP) system has also proven to be an efficient tool for structural liquidity risk management.

Methods and instruments of liquidity risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by the Bank.
The short-term liquidity risk is managed by limits resulting from the survival period model and by internal LCR targets. Limit breaches are reported to the Asset Liability Committee (ALCO). Another important instrument for managing the liquidity risk within the Bank is the FTP system. As the process of planning funding needs provides important data for liquidity management, a detailed overview of funding needs is prepared for the planning horizon.
The Comprehensive Contingency Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

Liquidity coverage ratio
The Bank uses the regulatory liquidity coverage ratio according to the LCR DA for internal monitoring and steering of the liquidity position as well. To keep the LCR DA above both limits, the regulatory limit and the internal limit, the Bank monitors daily its short-term liquidity inflows and outflows as well as its available counterbalancing capacity.

The following table shows the LCR DA as of 31 December 2023 and 31 December 2022:

		BANK
	2022	2023
Liquidity Coverage Ratio (LCR)	189%	220%

Structural liquidity

The long-term liquidity position is monitored using structural funding gaps ensuring an appropriate balance between assets and liabilities in the medium and long term time horizons avoiding excessive maturities transformation and consequently increased pressure on the short-term liquidity position.

The following table shows the ratio between all long-term maturing liabilities and all long-term maturing assets as of 31 December 2023 and 31 December 2022 which is calculated reverse cumulatively per time bucket. Ratio is based on contractual or modelled run-off cash flows and has a comprehensive coverage of on- and off- balance sheet components.

			BANK
2023	> 1 year	> 2 years	> 3 years
Structural liquidity ratio	1.09	1.19	1.27

			BANK
2022	> 1 year	> 2 years	> 3 years
Structural liquidity ratio	1.21	1.23	1.24

36. Liquidity risk (continued)

Counterbalancing capacity

The Bank regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserve at the Central Banks as well as unencumbered Central Bank eligible assets and other liquid securities, including changes from repos and reverse repos. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation. The term structure of the Bank's counterbalancing capacity as of 2023 year end and 2022 year end are shown in the tables below:

Term structure of counterbalancing capacity 2023

in EUR million	< 1 week	1 week(1) month	1(3) months	3(6) months	6(12) months
Cash, excess reserve	2,021	-	-	-	-
Liquid assets	2,229	10	(155)	(69)	(297)
of which bonds	2,229	10	(155)	(69)	(297)
Counterbalancing capacity	**4,250**	**10**	**(155)**	**(69)**	**(297)**

Term structure of counterbalancing capacity 2022

in EUR million	< 1 week	1 week(1) month	1(3) months	3(6) months	6(12) months
Cash, excess reserve	3,128	-	-	-	-
Liquid assets	1,899	-	(25)	(7)	(275)
of which bonds	1,899	-	(25)	(7)	(275)
Counterbalancing capacity	**5,028**	**-**	**(25)**	**(7)**	**(275)**

The figures above show the total amount of potential liquidity available for the Bank in a going concern situation, taking into account the applicable central bank haircuts and additional stressed haircuts. Negative figures are maturing positions of the counterbalancing capacity. Positive figures after one week are positions not immediately available as counterbalancing capacity. From Q3 2023 the Bank introduced Intraday Liquidity Buffer, which additionally reduces the counterbalancing capacity.

36. Liquidity risk (continued)

Contractual Undiscounted Cash Flows from Financial liabilities

Maturities of contractual undiscounted principal and interest cash flows from financial liabilities as of 31 December 2023 and 31 December 2022 respectively, were as follows:

2023.						BANK
in EUR million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**11,693**	**11,780**	**10,614**	**103**	**929**	**133**
Deposits by banks	308	328	98	20	193	17
Customer deposits	10,781	10,821	10,449	76	180	116
Debt securities in issue	537	563	-	7	556	-
Subordinated liabilities	-	-	-	-	-	-
Lease liabilities	15	15	15	-	-	-
Other financial liabilities	52	52	52	-	-	-
Derivative liabilities	**21**	**15**	**(1)**	**(1)**	**2**	**15**
Derivatives liabilities with netted Cash Flows	-	17	-	-	2	15
Derivatives liabilities with gross Cash Flow (net)	-	(2)	(1)	(1)	-	-
Outflows	-	307	157	146	4	-
Inflows	-	(309)	(158)	(147)	(4)	-
Contingent liabilities	**-**	**1,781**	**1,781**	**-**	**-**	**-**
Financial guarantees	-	838	838	-	-	-
Loan commitments	-	943	943	-	-	-
Total	**11,714**	**13,576**	**12,394**	**102**	**931**	**148**

2022.						BANK
in EUR million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5 years	> 5 years
Non-derivative liabilities	**12,224**	**12,266**	**9,622**	**1,442**	**698**	**504**
Deposits by banks	986	992	710	25	257	-
Customer deposits	10,673	10,675	8,872	1,374	355	74
Debt securities in issue	484	515	2	40	46	427
Subordinated liabilities	30	33	-	-	33	-
Lease liabilities	12	12	1	3	6	3
Other financial liabilities	39	39	39	-	-	-
Derivative liabilities	**23**	**23**	**-**	**1**	**4**	**18**
Derivatives liabilities with netted Cash Flows	-	22	-	-	4	18
Derivatives liabilities with gross Cash Flow (net)	-	1	-	1	-	-
Outflows	-	291	152	108	31	-
Inflows	-	(290)	(152)	(107)	(31)	-
Contingent liabilities	**-**	**1,659**	**1,659**	**-**	**-**	**-**
Financial guarantees	-	674	674	-	-	-
Loan commitments	-	985	985	-	-	-
Total	**12,247**	**13,949**	**11,281**	**1,443**	**702**	**522**

As of year-end 2023, the currency composition of the EBC balance sheet liabilities consisted of approximately: 96.0% EUR, 2.6% USD and 1.4% in other currencies (2022: 46.3% EUR, 3.0% USD, 49.2% HRK, and 1.5% in other currencies). As of 1 January 2023, Republic of Croatia adopted EUR as domestic currency.
As of 31 December 2023, the volume of customer deposits amounted to EUR 10.8 bn of which due on demand amounted to EUR 7.9 bn (2022: EUR 8.4 bn). According to customer segments, the customer demand deposits are composed as follows: 66.34% private individuals, 17.44% small and medium-sized enterprises, 7.88% large corporates, 7.93% public sector and 0.40% non-banking financial institutions (2022: 62.34% private individuals, 15.91% small and medium-sized enterprises, 13.43% large corporates, 5.93% public sector and 2.39% non-banking financial institutions).
Deposits by banks decreased by EUR 678.6 mn in 2023, due to closure of short-term repo loans on MM immediately after EURO introduction in the volume of approx. EUR 600 mn. As Croatia joined Eurozone at the beginning of 2023, Bank stopped HRK loans earlier before YE 2022, which together with a significant HRK clients deposits inflow in the liabilities side due to currency conversion created a regulatory need for a notable EUR debt over the YE 2022.
Debt securities in issue increased by EUR 52.8 mn in 2023, due to issued EUR 90.1 mn bond for Retail customers in June, while Bank has repaid EUR 39.8 mn of maturing bond in November.

37. Operational risk

Definition and overview

Pursuant to Article 4 (52) of CRR, the Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risk. Non-Financial Risks (NFR) comprise both operational and reputational risk. Bank's operational risk appetite sets the limits and escalation levels in line with the Bank's risk strategy for risk-taking as a consequence of doing business. The operatonal risk framework is a modular, interrelated and comprehensive approach integrated into the Bank's steering and risk management system. It is designed to fulfil internal risk management and external regulatory requirements.

The roles and responsibilities for operational risk management is defined by the "Three Lines of Defence" model. The day-to-day management of operational risk is the primary responsibility of Business Line Management (BLM). BLM is responsible for identifying, assessing and managing the risks residual in the products, activities, processes and systems on an ongoing basis by using operational risk management instruments.

Operational Risk Framework and Standards

For managing operational risk the Bank applies various elements: identification of operational risk, assessment, mitigation and acceptance of operational risk, monitoring and regular reporting.

Risk identification of operational risk includes collection of internal loss data, where particular emphasis is put on the data classification and quality necessary for quantifying operational risk, and key risk indicators to measure the risk level changes. Risk indicators are reviewed regularly to ensure early detection of risk potentials to cause losses. The risk identification process includes an ongoing mechanism to identify new risks, risk drivers and emerging risks. Risk evaluation is an ongoing process in which the Business Line Management (BLM) proactively identifies and analyses relevant non-financial risks and assesses the effectiveness of the controls to mitigate those risks, both for the run and change the bank processes (e.g. new product approval, outsourcings). BLM evaluates the risks in line with the risk appetite and reports the residual risks to senior management or risk committees for risk response. The acceptance level of NFR is managed by using the Operational Risk Scaling Matrix which is setting the limits of the residual operational risk tolerated by the Bank. Risk monitoring via corrective measures is performed on a regular basis. Regular risk reporting provides detailed information to business and risk management units, senior management and the management board of the Bank which is informed on operational risk through quarterly Operational Risk Report. The report includes operational risk exposure and losses, risk assessments results including risk and control self-assessmentsss (RCSA), key risk indicators, NFR decisions and corrective measures. Non-Financial Risk management committee is held at minimum on a quarterly basis and decides also on operational risk management related topics.

The Bank locally applies The Standardised Approach – TSA for operational risk capital requirements calculation.

The Bank is included in the Insurance program for operational risk on the Erste Group level (Captive Insurance) for risk transfer and recognition as a mitigant in capital requirement calculation using Advanced Measurement Approach on Erste Group's consolidated level.

Non-current assets and other investments

Property and equipment

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment. Depreciation of property and equipment is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. Depreciation is reported in the statement of profit or loss in the line item 'Depreciation and amortisation' and impairment in the line item 'Other operating result'.

The estimated economic useful lives are set out below:

	Useful life in years	
	2022	2023
Buildings	40	40
Office furniture and equipment	3-10	3-10
Motor vehicles	4-6	4-6
Computer hardware	4	4

Land is not depreciated.

Any impairment losses including their reversals and gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) are recognised in the statement of profit or loss in the line item 'Other operating result'.

Investment properties

Investment property is a property (land and buildings or part of a building or both) held for the purpose of earning rentals and/or for capital appreciation.

Investment property is measured at cost less accumulated depreciation and any accumulated impairment.

Rental income is recognised and presented in the statement of profit or loss in the line item 'Rental income from investment properties and other operating leases'. Depreciation is recognised and presented in the statement of profit or loss in the line 'Depreciation and amortisation' using the straight-line method over an estimated useful life. The useful lives of investment properties are identical to those of buildings presented under 'Property and equipment'. Any impairment losses, as well as their reversals, are recognised in the statement of profit or loss and presented in the line item 'Other operating result'.

Assets under operating leases

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. The leased asset is presented by the lessor in the statement of financial position under the line item 'Property and equipment'.
Initial direct costs of obtaining the lease are added to the underlying asset and recognised as an expense over the lease term on the same basis as the lease income.
For assets held under operating lease the Group uses a depreciation policy which is consistent with the normal depreciation policy for similar assets. Depreciation is recognised and presented in the statement of profit or loss in the line item 'Depreciation and amortisation'.
Lease income arising is accounted for on a straight-line basis over the lease terms and presented in the statement of profit or loss in the line item 'Rental income from investment properties and other operating leases'.
The Group's policy is the sale of assets under the operating lease after the termination of the lease.

Right of use assets

Under IFRS 16, the Group as a lessee recognises a right-of-use asset representing its right to use the underlying asset.
The right-of-use asset is initially measured at cost. The cost comprises the amount of the initial measurement of the lease liability and includes other elements such as initial direct costs incurred by the lessee. The right-of-use assets is presented in the statement of financial position under the line item ‘Property and equipment’. Subsequently, the right-of-use asset is depreciated to the earlier of the end of its useful life or the end of the lease term. The Group uses the straight-line method of depreciation. The useful lives for property are between 2 and 15 years while the motor vehicles are depreciated based on useful lives between 2 and 6 years. Depreciation is reported in the statement of profit or loss in the line item ‘Depreciation and amortisation’ and impairment in the line item ‘Other operating result’.

Impairment of non-financial assets (property and equipment, investment properties, right of use assets)

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise, the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs.

If any indication of impairment exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of the assets or CGU's fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring 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.

At each reporting date an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset’s or CGU’s recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairment losses and their reversals are recognised in profit or loss and presented in the statement of profit or loss under the line item ‘Other operating result’.

38. Property, equipment and Investment properties

Acquisition costs

Own property, equipment and investment properties

GROUP

in EUR million	Property and equipment – Acquisition costs					
	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2022	**124**	**47**	**56**	**44**	**271**	**1**
Additions (+)	5	4	7	9	25	1
Disposals (-)	(1)	(3)	(2)	(11)	(17)	-
Addition to group	-	-	-	1	1	-
Reclassification	1	1	(1)	-	1	(1)
Assets held for sale	(1)	-	-	-	(1)	-
Balance as at 31 December 2022	**128**	**49**	**60**	**43**	**280**	**1**
Additions (+)	5	5	6	11	27	-
Disposals (-)	-	(2)	(5)	(11)	(18)	-
Disposal of group	-	(1)	-	-	(1)	-
Reclassification	10	1	-	-	11	1
Balance as at 31 December 2023	**143**	**52**	**61**	**43**	**299**	**2**

Accumulated depreciation

Own property, equipment and investment properties

GROUP

in EUR million	Property and equipment – Accumulated depreciation and impairment					
	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2022	**(42)**	**(34)**	**(37)**	**(15)**	**(128)**	**-**
Depreciation (-)	(2)	(4)	(8)	(6)	(20)	-
Disposals (+)	-	2	3	7	12	-
Addition to group	-	-	-	(1)	(1)	-
Balance as at 31 December 2022	**(44)**	**(36)**	**(42)**	**(15)**	**(137)**	**-**
Depreciation (-)	(3)	(4)	(7)	(6)	(20)	-
Disposals (+)	-	2	4	7	13	-
Disposal of group	-	1	-	-	1	-
Reclassification	(8)	(1)	-	-	(9)	-
Balance as at 31 December 2023	**(55)**	**(38)**	**(45)**	**(14)**	**(152)**	**-**

38. Property, equipment and Investment properties (continued)

Carrying amounts

Own property, equipment and investment properties

GROUP

	Property and equipment					
in EUR million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 31 December 2022	84	13	18	28	143	1
Balance as at 31 December 2023	88	14	16	29	147	2

Rights of use: property, equipment and investment properties

GROUP

	Property and equipment					
in EUR million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 31 December 2022	11	1	-	-	12	-
Balance as at 31 December 2023	13	1	-	-	14	-

Acquisition costs

Own property, equipment and investment properties

BANK

	Property and equipment – Acquisition costs					
in EUR million	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2022	102	40	36	-	178	-
Additions (+)	5	4	5	-	14	-
Disposals (-)	(1)	(2)	(1)	-	(4)	-
Balance as at 31 December 2022	106	42	40	-	188	-
Additions (+)	4	4	5	-	13	-
Disposals (-)	-	(2)	(1)	-	(3)	-
Reclassification	11	-	-	-	11	-
Balance as at 31 December 2023	121	44	44	-	209	-

38. Property, equipment and Investment properties (continued)

Accumulated depreciation

Own property, equipment and investment properties

BANK

in EUR million	Property and equipment – Accumulated depreciation and impairment					
	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 1 January 2022	**(37)**	**(29)**	**(20)**	**-**	**(86)**	**-**
Depreciation (-)	(2)	(3)	(6)	-	(11)	-
Disposals (+)	-	2	1	-	3	-
Balance as at 31 December 2022	**(39)**	**(30)**	**(25)**	**-**	**(94)**	**-**
Depreciation (-)	(2)	(3)	(6)	-	(11)	-
Disposals (+)	-	2	1	-	3	-
Reclassification	(9)	-	-	-	(9)	-
Balance as at 31 December 2023	**(50)**	**(31)**	**(30)**	**-**	**(111)**	**-**

Own property, equipment and investment properties

BANK

in EUR million	Property and equipment					
	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 31 December 2022	**67**	**12**	**15**	**-**	**94**	**-**
Balance as at 31 December 2023	**71**	**13**	**14**	**-**	**98**	**-**

Rights of use: property, equipment and investment properties

BANK

in EUR million	Property and equipment					
	Land and buildings	Office and plant equipment / other fixed assets	IT assets (hardware)	Movable other property	Property and equipment	Investment properties
Balance as at 31 December 2022	**11**	**1**	**-**	**-**	**12**	**-**
Balance as at 31 December 2023	**12**	**3**	**-**	**-**	**15**	**-**

In the reporting period, expenditures in the amount of EUR 18 million and 17 million for the Group and the Bank respectively (2022: EUR 24 million for the Group and and EUR 14 million for the Bank) are capitalised in the carrying amount of fixed assets during their construction. The contractual commitments for purchase of fixed assets amounted to EUR 4 million for the Group and the Bank as of 31 December 2023 (2022: EUR 3 million for the Group and the Bank).

As of 31 December 2023, the Group's property and equipment amounted to EUR 161 million (2022: EUR 155 million). The carrying amount of property and equipment of EUR 26 million (2022: EUR 26 million) was leased under operating lease of which the amount of EUR 26 million (2022: EUR 25 million) relates to movable property, and in 2022 the reamining amount of EUR 1 million relates to land and buildings.

As of 31 December 2023, the Bank's property and equipment amounted to EUR 113 million (2022: EUR 106 million). The carrying amount of property and equipment of EUR 2 million (2022: EUR 2 million) relates to land and buildings leased under operating lease.

For details related to right of use assets capitalized in balance sheet arising from leases where Group is lessee, please see Note 42 Group as a lessee.

38. Property, equipment and Investment properties (continued)

Fair values of non-financial assets

As of 31 December 2023, the fair value of investment properties with a carrying amount of EUR 2 million for the Group and nil for the Bank (2022: EUR 1 million for the Group and nil for the Bank) amounts to EUR 2 million for the Group (2022: EUR 2 million) and is classified as level 3 of the fair value hierarchy.

For non-financial assets owned by the Group the valuations are carried out using the comparative and investment methods. Assessment is made on basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the asset, taking into account size, location, terms, covenant and other material factors. Such measurements are presented in Level 3 of the fair value hierarchy.

39. Intangible assets

Goodwill arises from business combinations whereby a subsidiary is acquired. Subsequently, goodwill is carried at cost as established on the acquisition date, less accumulated subsequent impairment losses, if any. For more details on measurement of goodwill at the acquisition date refer to Note 47 Investment in subsidiaries.

In addition to goodwill, the Group's intangible assets include computer software, customer relationships and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. Costs of internally generated software are capitalised if the Group can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Following inital recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. In the Group, these are customer relationships, and they are capitalised on acquisition if they can be measured with sufficient reliability.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss under the line item 'Depreciation and amortisation'.

The estimated useful lives are as follows:

	Useful life in years	
	2022	2023
Software	4	4
Core banking software	6	6
Other intangible assets	5	5

Impairment of intangible assets including goodwill

Goodwill arising on acquisition of a business is carried at cost as established, as the date of acquisition of the business less accumulated subsequent impairment losses, if any.
For CGUs to which goodwill has been allocated the impairment test is carried out annually in November, or whenever there is an indication of possible impairment during the year.

39. Intangible assets (continued)

For CGUs at Group the recoverable amount for determining the potential impairment loss is typically based on value in use which is the present value of the future cash flows expected to be derived from the CGU. The calculation starts with estimation of future earnings distributable to shareholders. In this respect financial plans for CGUs as agreed by the management taking into account the fulfilment of the respective regulatory capital requirements are used. The planning period range is five years. Any forecasted earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate, which is based on macroeconomic parameters for each CGU. The estimated future earnings beyond the initial planning period are captured in the terminal value (TV).

The discount rates reflect risks specific to the CGU and have been determined based on the capital asset pricing model (CAPM). According to CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium is considered in calculation of the discount rate. The values used to establish the discount rates are determined using external sources of information.
When the recoverable amount of CGU is less than its carrying amount, the difference is recognized as an impairment loss in the statement of profit or loss and reported under the line item 'Other operating result'.

Acquisition costs

					GROUP
	Acquisition costs				
in EUR million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2022	**81**	**24**	**47**	**40**	**192**
Additions (+)	-	-	4	1	5
Balance as at 31 December 2022	**81**	**24**	**51**	**41**	**197**
Additions (+)	-	-	5	2	7
Disposals (-)	-	-	(2)	(2)	(4)
Disposal of group	-	-	-	1	1
Reclassification	-	-	-	(13)	(13)
Balance as at 31 December 2023	**81**	**24**	**54**	**29**	**188**

Accumulated depreciation

					GROUP
	Accumulated depreciation				
in EUR million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2022	**(64)**	**(24)**	**(29)**	**(30)**	**(147)**
Amortisation (-)	-	-	(6)	(4)	(10)
Impairment	(17)	-	-	-	(17)
Balance as at 31 December 2022	**(81)**	**(24)**	**(35)**	**(34)**	**(174)**
Amortisation (-)	-	-	(6)	(2)	(8)
Disposals (+)	-	-	2	1	3
Reclassification	-	-	-	11	11
Balance as at 31 December 2023	**(81)**	**(24)**	**(39)**	**(24)**	**(168)**

39. Intangible assets (continued)

Carrying amounts

in EUR million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
					GROUP
Balance as at 31 December 2022	-	-	16	7	23
Balance as at 31 December 2023	-	-	15	5	20

Goodwill and customer relationship carrying amount in whole relates to Erste Card Club d.o.o.

Acquisition costs

	Acquisition costs				BANK
in EUR million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2022	-	-	37	16	53
Additions (+)	-	-	3	-	3
Balance as at 31 December 2022	-	-	40	16	56
Additions (+)	-	-	4	1	5
Disposals (-)	-	-	(2)	(1)	(3)
Reclassification	-	-	-	(11)	(11)
Balance as at 31 December 2023	-	-	42	5	47

Accumulated depreciation

	Accumulated depreciation				BANK
in EUR million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
Balance as at 1 January 2021	-	-	(24)	(11)	(35)
Amortisation (-)	-	-	(5)	(1)	(6)
Balance as at 31 December 2022	-	-	(29)	(12)	(41)
Amortisation (-)	-	-	(4)	(1)	(5)
Disposals (+)	-	-	2	1	3
Reclassification	-	-	-	8	8
Balance as at 31 December 2023	-	-	(31)	(4)	(35)

Carrying amounts

in EUR million	Goodwill	Customer relationships	Software acquired	Others (licenses, patents, etc.)	Total
					BANK
Balance as at 31 December 2022	-	-	11	4	15
Balance as at 31 December 2023	-	-	11	1	12

Software acquired column relates to core banking system.

39. Intangible assets (continued)

Goodwill

The goodwill impairment assessment for the year 2022 addressed the subsidiary Erste Card Club d.o.o. (CGU).

For these purposes we used discounted cash flow method, based on budgeted figures of Erste Card Club d.o.o. for the period of 2022 till 2027. Discount rate applied to determine the value in use was 14.54%.

The business of Erste Card Club d.o.o. in 2022 was stable despite the impact of COVID-19, the war in Ukraine and inflation. In challenging business environment, regulatory requirements, digital technologies, new foreign competition (TPP and cross-border acquirers) and especially the pressure of merchants on MSC fees will make card business and its profitability more uncertain after 2022. In the periods after 2024, a decrease in operating income is expected in Erste Card Club d.o.o. due to the market situation, entry into EMU and due to further competitive pressure on cooperation with merchants and customers, and the volume of transactions and margins and an increase in operating expense due to the continued impact of inflation. Due to these expectations, the Management Board reduced part of the estimated operating income and increased part of the estimated operating expense in periods 2025-2027, which resulted in impairment of its investments in this subsidiary and an impairment of goodwill of Erste Card Club d.o.o. in consolidated financial statements in the amount of EUR 17 million in 2022. For segment information in accordance with IFRS 8, information is dislosed in Note 1 Segment reporting.

The following table shows the sensitivity analysis of the recoverable value dependent of investment in Erste Card Club d.o.o. for 2022 on the main variables (terminal growth rate and terminal cost of equity):

2022	Risk free rate		
TV growth rate	14.04%	14.54%	15.04%
1.8%	1.406	1.396	1.388
2.3%	1.406	1.396	1.387
2.8%	1.406	1.396	1.386

Amount by which recoverable amount is less than carrying amount in 2022 for Erste Card Club d.o.o. is EUR 17 million which resulted in total goodwill impairment.

40. Other assets

Inventory

The repossessed asset is classified as 'other assets' and measured in accordance with the requirements of IAS 2 'Inventories' if the asset is intended for sale in the ordinary course of business. Namely, it is recognized at an acquisition cost equal to its fair value as estimated and documented upon repossession. Upon each subsequent reporting date, it is measured at lower of cost and net realizable value (expected selling price less costs to sell).

Gains or losses resulting from sale are recognised in the statement of profit or loss and presented under the line item 'Other operating result' in the statement of profit or loss, together with costs of sales and other costs incurred in selling the assets.

	GROUP		BANK	
in EUR million	**2022**	**2023**	**2022**	**2023**
Prepayments and accrued income	4	5	1	2
Inventories	27	23	22	19
Value adjustments of inventories	(11)	(11)	(7)	(7)
Sundry assets	16	13	7	4
Other assets	**36**	**30**	**23**	**18**

In the line 'Inventories' the Group holds repossessed assets (collaterals obtained in foreclosure procedures) which the Group has the intention to sell.

Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group.

Leases

A lease is a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration.

41. Group as a lessor

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. In the case of a finance lease, the lessor reports a receivable from the lessee under the line item 'Finance lease receivables'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the statement of profit or loss in the line item 'Other similar income' under 'Net interest income'.

In the case of operating leases, which are leases other than finance leases, the leased asset is reported by the lessor in 'Property and equipment' or in 'Investment properties' and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the statement of profit or loss under the line item 'Rental income from investment properties and other operating leases'.

Finance leases

The Group leases movable property to other parties under finance lease arrangements. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments are as follows:

		GROUP
in EUR million	**2022**	**2023**
Outstanding lease payments	442	545
Gross investment	**442**	**545**
Unrealised financial income	(35)	(58)
Net investment	**407**	**487**
Present value of outstanding lease payments	**407**	**487**

The maturity analysis of lease by residual maturities under IFRS 16:

				GROUP
		2022		2023
in EUR million	**Gross investment**	**Present value of outstanding lease payments**	**Gross investment**	**Present value of outstanding lease payments**
< 1 year	144	130	168	147
1 – 2 years	109	103	125	115
2 – 3 years	79	73	99	90
3 – 4 years	56	51	72	63
4 – 5 years	34	31	49	42
> 5 years	20	19	32	30
Total	**442**	**407**	**545**	**487**

During 2023, Group recognised interest income on finance lease receivables in the amount of EUR 23 million (2022: EUR 14 million).

41. Group as a lessor (continued)

Finance lease receivables

The analysis of the gross carrying amount (GCA) and of related credit loss allowances (CLA) of finance lease receivables per impairment buckets as of 31 December 2023 and 31 December 2022 is provided in the table below:

											GROUP
	GCA					CLA					
in EUR million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2023											
General governments	6	-	-	-	6	-	-	-	-	-	6
Other financial corporations	1	-	-	-	1	-	-	-	-	-	1
Non-financial corporations	302	59	5	-	366	(1)	(1)	(2)	-	(4)	362
Households	100	12	2	-	114	-	-	-	-	-	114
Total	**409**	**71**	**7**	**-**	**487**	**(1)**	**(1)**	**(2)**	**-**	**(4)**	**483**

											GROUP
	GCA					CLA					
in EUR million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying amount
2022											
General governments	3	3	-	-	6	-	-	-	-	-	6
Other financial corporations	1	-	-	-	1	-	-	-	-	-	1
Non-financial corporations	228	71	7	-	306	(1)	(2)	(2)	-	(5)	301
Households	81	10	2	-	93	-	(1)	-	-	(1)	92
Total	**313**	**84**	**9**	**-**	**406**	**(1)**	**(3)**	**(2)**	**-**	**(6)**	**400**

For information about development of credit loss allowances refer to Note 31 Development of credit loss allowances, part ‘Finance lease receivables’: Table ‘Movement in credit loss allowances – finance lease receivables’.

During the process of credit risk assessment, the Company applies prudent methods and assessment models in the risk assessment process. To evaluate a portion of the lessees, the Company uses an internally developed system in the form of score cards as well as the Group’s internal system. The internal evaluation system for natural persons and sole traders with single-entry bookkeeping consists of four grades for non-default clients and one grade for default clients. For other clients, the Group’s evaluation system is used that has thirteen grades for non-default clients and one grade for default clients.

For the purpose of simplified presentation of the credit risk exposure, the grades obtained in this way are internally divided into four risk levels: low risk indicates a high probability of collection; moderate risk is when the debtor’s financial situation is stable but there may be a limited negative impact resulting from an undesired economic situation; moderately high risk is when the debtor is vulnerable to negative financial and economic impacts and therefore needs to be monitored and sufficient collateralisation needs to be ensured. High risk relates to the occurrence of a default event.

41. Group as a lessor (continued)

Operating leases

Under operating leases, the Group and the Bank has entered into commercial leases on premises, vehicles and equipment.

Maturity analysis of lease payments from operating leases under IFRS 16

		GROUP		BANK
in EUR million	2022	2023	2022	2023
< 1 year	8	7	-	1
1 – 2 years	5	5	-	-
2 – 3 years	3	3	-	-
3 – 4 years	2	2	-	-
4 – 5 years	1	1	-	-
> 5 years	-	1	-	-
Total	**19**	**19**	**-**	**1**

For information about rental income please refer to Note 7 Rental income from investment properties and other operating leases.

42. Group as a lessee

Under IFRS 16, Group as a lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases (less than 12 months) and leases of low-value items.

The right-of-use asset is depreciated to the earlier of the end of its useful life or the end of the lease term. The Group uses the straight-line method of depreciation. The right of use assets are presented as part of ‘Property and equipment’ in the statement of financial position and depreciation cost as part of the line item ‘Depreciation and amortisation’ in the statement of profit or loss. The right of use asset is in scope of impairment requirements in IAS 36.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, The lease payments also include the exercise price under a purchase option and lease payments in an optional renewal period are considered if the lessee is reasonably certain to exercise the option. Variable lease payments not included in the measurement of the lease liability are recognised as an expense in profit or loss, in the period in which the event or condition that triggers those payments occur. The incremental borrowing rate for movables consists of Euribor as a base rate, adjusted by a surcharge based on the entity’s rating, the amount of funds borrowed, the term of the lease and the collateral provided. The determination of the incremental borrowing rate for property leases is based on two components, the market rate and the single property rate. The market rate considers the lease term, creditworthiness and is derived from existing bank data from the lending business. The single property rate represents a surcharge to the market rate based on the quality of the single property.
In the statement of financial position, the lease liabilities are presented in the line item ‘ liabilities’. Interest expense decreases over the lease term and it is presented as part of ‘Other similar expenses’ under the line ‘Net interest income’ in the statement of profit or loss.

The Group primarily rents real estate’s such as buildings and land for branches and parking lots. In addition, movables such as IT equipment are rented for business operations.

42. Group as a lessee (continued)

Rights of Use Assets

Right Of Use Assets	GROUP			BANK		
in EUR million	Land and buildings	Office and plant equipment / other fixed assets	Property and equipment	Land and buildings	Office and plant equipment / other fixed assets	Property and equipment
2022						
Carrying amounts	11	1	**12**	11	1	**12**
Additions (+)	3	-	**3**	2	-	**2**
Depreciation (-)	(3)	-	**(3)**	(2)	-	**(3)**
2023						
Carrying amounts	13	1	**14**	12	3	**15**
Additions (+)	5	-	**5**	4	2	**6**
Depreciation (-)	(3)	-	**(3)**	(3)	-	**(3)**

Maturity analysis of lease liabilities based on undiscounted cash flows

in EUR million	GROUP 2022	GROUP 2023	BANK 2022	BANK 2023
< 1 year	3	3	4	3
1 – 5 years	7	7	6	8
> 5 years	3	6	3	7
Total	**13**	**16**	**13**	**18**

In 2023, expenses in the amount of EUR 88 thousand for the Group and EUR 88 thousand for the Bank relating to short term leases, (2022: EUR 44 thousand for the Group and for the Bank) for which the recognition exemption of IFSR 16 applies, were recognised. In addition, expenses in the amount of EUR 2 million for the Group and EUR 1 million for the Bank relating to leases of low value items, for which the recognition exemption of IFSR 16 applies, were recognized (2022: EUR 2 million for the Group and EUR 1 million for the Bank).

Total cash outflow for leases in 2023 were EUR 3 million for the Group and EUR 5 million for the Bank (2022: EUR 4 million for the Group and EUR 5 million for the Bank).

There are no commitments for future cash outflows which are not reflected in the measurement of lease liabilities for the Group and for the Bank (2022: nil for the Group and nil for the Bank). The Group had no restrictions or covenants imposed by leases or sales and lease back transactions as of 31 December 2023 and 31 Decemeber 2022.

Accruals, provisions, contingent liabilities and legal proceedings

43. Other liabilities

	GROUP		BANK	
in EUR million	**2022**	**2023**	**2022**	**2023**
Prepayments received from debtors	23	9	19	3
Salaries and bonuses payable	32	34	26	28
Deferred income and accrued fee expenses	10	14	1	3
Payables to State Agency for deposit	4	4	4	4
Sundry liabilities	26	47	16	39
Other liabilities	**95**	**108**	**66**	**77**

Deferred income outstanding at 31 December 2023 includes ‘contract liabilities’ in accordance with IFRS 15 in amount of EUR 6 million for the Group and EUR 1 million for the Bank (2022: EUR 5 million for the Group and EUR 1 million for the Bank). Revenue recognised in the reporting year 2023 that was included in the contract liability balance at the beginning of the period amounts to EUR 3 million for the Group and EUR nil for the Bank. (2022: EUR 3 million for the Group and nil for the Bank).

The item ‘Sundry liabilities’ mainly contains outstanding settlement liabilities as well as other liabilities from employee benefits.

44. Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation and and the amount of the obligation can be estimated reliably.
Provisions for liabilities and charges are maintained at the level that the Group’s management considers sufficient for absorption of losses. The management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors.
In the statement of financial position, provisions are presented under the line ‘Provisions’. They include credit risk loss provisions for financial guarantees and loan commitments given as well as provisions for litigation and restructuring. Expenses or income related to provisions for loan commitments and financial guarantees under IFRS 9 requirements are presented in the statement of profit or loss under the line item ‘Impairment result from financial instruments’. Expenses or income related to other provisions are presented in the statement of profit or loss under the line item ‘Other operating result’.

Material accounting judgements, assumptions and estimates

Recognition of provisions requires judgement with respect to whether Group has a present obligation as a result of a past event and whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Furthermore, estimates are necessary with respect to the amount and timing of future cash flows when determining the amount of provisions. Further details on provisions for off-balance credit risk exposures are explained in Note 28 Credit risk exposure and Note 31 Development of credit loss allowances.

Following classes of provision can be distinguished:

	GROUP		BANK	
in EUR million	**2022**	**2023**	**2022**	**2023**
Long-term employee provisions	2	2	1	1
Pending legal issues	53	56	43	55
Provision for commitments and guarantees given	35	17	33	15
CLA for loan commitments and financial guarantees in Stage 1	6	7	5	5
CLA for loan commitments and financial guarantees in Stage 2	25	6	25	6
CLA for loan commitments and financial guarantees – Defaulted	4	4	3	4
Other provision	-	-	-	-
Provisions	**90**	**75**	**77**	**71**

,44. Provisions (continued)

Long-term employee benefits

Long-term employee benefits are all benefits given by the Group in exchange for services rendered by employees which become due in more than 12 months from the period of services rendered to which they relate.

Obligations for defined retirement benefit and jubilees are recognised in the amount of net present value determined by using the Projected Unit Credit Method, with actuarial valuations being carried out at each statement of financial position date. Actuarial gains or losses in respect of pension benefit provisions are recognized in full in the period in which they occur. Remeasurement of actuarial gains or losses related to pension benefits are recognised in the statement of other comprehensive income and the amounts of remeasurements accumulated in other comprehensive income are not reclassified to profit or loss. Actuarial gains or losses in provisions for jubilee benefits are recognised in the statement of profit or loss in the period in which they occur. Remeasurement of jubilee defined-benefit plans are recognised in the statement of profit or loss and presented under the line item 'Personnel expenses'.

			GROUP
in EUR million	Pensions	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 December 2021	1	1	2
Present value of long-term employee benefit obligations, 31 December 2022	1	1	2
Present value of long-term employee benefit obligations, 31 December 2023	1	1	2

			BANK
in EUR million	Pensions	Jubilee payments	Total
Present value of long-term employee benefit obligations, 31 December 2021	-	1	1
Present value of long-term employee benefit obligations, 31 December 2022	-	1	1
Present value of long-term employee benefit obligations, 31 December 2023	-	1	1

44. Provisions (continued)

Actuarial assumptions

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about interest rates, future pension increases, future salary increases and mortality rates.

The actuarial calculation of pension obligations and jubilee provisions is based on the following assumptions:

in %	2022	2023
Interest rate	1.35	3.69
Expected increase in retirement benefits	7.11	7.55

The expected retirement age for each employee was individually calculated on the basis of their current age and average of retirement age, which is for men 61 and for women 60.
Obligations were calculated in accordance with the mortality tables entitled Life tables for the Republic of Croatia 2010-2012 Issued by Croatian Bureau of Statistics.

Sensitivity to Key Assumption

The following table presents how the reasonably possible changes of individual parameters effect post-employment benefit obligations as of year-end 2023.

in EUR million	Pensions	Jubilee payments	Total
Change in discount rate + 1.0%	-	1	1
Change in discount rate - 1.0%	-	1	1

Duration

The following table presents the weighted average duration of the defined-benefit obligations as of year-end 2023:

in years	Pensions	Jubilee payments	Total
Duration	15.87	9.34	12.60

Loan commitments and financial guarantees given in scope of IFRS 9

In the ordinary course of business, the Group provides guarantees consisting of various types of letters of credit and guarantees. A financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees contracts issued transfer primarily credit risk.

The Group as a guarantor recognises financial guarantees as soon as it becomes a contracting party. Guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. The fee is received over the life of the guarantee given, in arrears, on a quarterly basis and recognised in the statement of profit or loss, in the line item ‘Fee and commission income’ under ‘Net fee and commission income’.

44. Provisions (continued)

The Group has the contractual right to revert to its customer for recovering amounts paid to settle the guarantee. Such amounts will be recognised as a financial asset upon transfer of the loss compensation to the guarantee's beneficiary.
Subsequent to initial recognition, provisions are recognised based on the expected credit loss impairment model and reported in the statement of financial position under the line item 'Provisions'.

Loan commitments are firm commitments to provide credit under prespecified terms and conditions. Loan commitments are generally not recognised in the balance sheet before they are drawn. If it is probable that the bank will enter into the loan agreement loan commitment fees received are deferred and adjust the effective interest rate of the loan when the commitment is drawn. Loan commitments result in recognition of provisions based on the expected credit loss impairment model.

For information about development of credit loss allowances for provision for financial guarantees and loan commitments refer to Note 31 Development of credit loss allowances, part 'Loan commitments and financial guarantees': table 'Movement in credit loss allowances – loan commitments and financial guarantees.

Remaining classes of provisions

Following table provides the information about the development of the remaining classes of provisions

						GROUP
in EUR million	**2022**	**Allocations**	**Use**	**Releases**	**Exchange rate**	**2023**
Pending legal issues	53	17	(12)	(2)	-	56
Total	**53**	**17**	**(12)**	**(2)**	**-**	**56**

						BANK
in EUR million	**2022**	**Allocations**	**Use**	**Releases**	**Exchange rate**	**2023**
Pending legal issues	43	16	(3)	(1)	-	55
Total	**43**	**16**	**(3)**	**(1)**	**-**	**55**

						GROUP
in EUR million	**2021**	**Allocations**	**Use**	**Releases**	**Exchange rate**	**2022**
Pending legal issues	30	32	(2)	(7)	-	53
Total	**30**	**32**	**(2)**	**(7)**	**-**	**53**

						BANK
in EUR million	**2021**	**Allocations**	**Use**	**Releases**	**Exchange rate**	**2022**
Pending legal issues	28	24	(2)	(7)	-	43
Total	**28**	**24**	**(2)**	**(7)**	**-**	**43**

44. Provisions (continued)

In Croatia, the Supreme Court, in a proceeding initiated by a local consumer protection association against several Croatian credit institutions ("Collective Case"), among them Erste Bank Croatia ("EBC"), declared in 2015 that Swiss Franc (CHF) clauses in loan agreements with consumers are valid, but contractual provisions permitting unilateral change of the variable interest in CHF denominated consumer loans, used by the majority of credit institutions from 2004 till. 2008, are unfair and null and void. In 2016, the Croatian Constitutional Court rescinded part of the Supreme Court's decision relating to the validity of CHF clauses. By the end of 2017 the Croatian Supreme Court rescinded second instance verdict and returned for a retrial with respect to the CHF clause to the court of second instance. That court delivered its decision in July 2018, confirming the first instance decision. The court decided that collective interest of consumers have been breached by the defendant banks that contracted unfair provision in their loan agreements by linking the currency of the obligation to the exchange rate of the CHF.

Supreme Court reached a legal standing in December 2022 according to which clients who have converted their CHF denominated loans to EUR denominated loans (in accordance with applicable laws enacted in 2015) are entitled to the restitution in the form of a default interest for overpaid amounts taken into account by a credit institution when converting loan liabilities into EUR. However, a local consumer protection association – declared its willingness to pursue further actions before the Constitutional Court against the legal standing. The final impact of the aforementioned legal standing as well as the future jurisprudence is still difficult to predict since that standing has not been finally and officially confirmed.

Further information on disclosed disputes are not being provided following IAS 37.92, in order to protect the position of the Group in pending court cases.

The Group has followed the guidance of IAS 37: Provisions, Contingent Liabilities and Contingent Assets and recognized the provision for expected expense.

45. Contingent liabilities

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized in the Statement of Financial Position, they do involve credit risk and are therefore part of the overall risk of the Group and the Bank (see Note 27 Credit risk review and monitoring and Note 31 Development of Credit loss allowances).

The Group is involved in legal disputes, most of which have arisen in the course of ordinary banking business. These proceedings are not expected to have a significant negative impact on the financial position or profitability of the Group.
Any possible financial impacts of these proceedings are not disclosed, as neither the duration nor the outcome can be reliably estimated and to avoid influencing the outcome of the various proceedings.

Capital instruments, equity and reserves

46. Total equity

Share capital

On 1 January 2023, the euro became the official currency of the Republic of Croatia. The amendments to the Croatian Companies Act ("Act"), which came into force on 1 January 2023, prescribe the conversion of share capital from kuna to euros as a main obligation of companies. Amounts from kuna are converted in accordance with the rules of the Law on the introduction of the euro as official currency (Official Gazette 57/22, 88/22) and are rounded to the nearest cent.
Listed companies are obligated to convert into euros the current amount of their share capital, the nominal amount of shares and all amounts expressed in their Articles of Association (Statute) in kuna in such a way that they are expressed as a whole number. Therefore, the Bank's adjustment of share capital is carried out through capital reserves in amount of EUR 12 million.

As at 31 December 2023 and 2022 the share capital of the Bank comprises of 16,984,175 ordinary shares. Nominal value of shares as at 31 December 2023 amounted EUR 14 (2022: HRK 100). All the ordinary shares are ranked equally and bear one vote.

Capital reserves and share premium

The Bank's distributable and non-distributable reserves are determined by regulations of the CNB. As at 31 December 2023 and 2022 the legal reserves of the Bank disclose non-distributable reserves of EUR 11 million.
Share premium as at 31 December 2023 amounted to EUR 227 million (2022 amounted to EUR 239 million).

Dividends

The dividends for 2023 are subject to approval by shareholders at Annual General Assembly which has not been held as of the date when these consolidated financial statements were authorize for issue.

The dividend for the year 2022 in the amount of EUR 78,039,967.95 was distributed to the shareholders, in amount of EUR 4.59 per share.

Scope of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (subsidiaries) together with the Group's share in associates.

Merger and disposal in 2022

Merger under common control of S Leasing d.o.o. Podgorica

Company S Leasing d.o.o. Podgorica has been merged with Erste bank AD Podgorica as of 12th December 2022.
Erste bank AD Podgorica is an entity that has survived the merger. This is a business combination transaction under common controls as all merging companies are businesses in the meaning of IFRS 3, are controlled by the same party and the control is not transitory. No consideration transferred for this merger as the Erste bank AD Podgorica holds 100% interest in subsidiary. The transaction is a business combination under common control and was accounted for using a predecessor value method). The carrying amounts of assets and liabilities of S Leasing d.o.o. Podgorica. from the consolidated financial statements of the Group were used to account for this transaction. The difference between carrying amount of the investment in subsidiary (recognised before the merger at cost in the separate FS of the surviving entity) and the carrying amount of the net assets of the acquired company is recognised in equity (in Retained earnings).
The merger was accounted for prospectively from the date of the transaction. The comparatives are not restated thus the comparatives present only the assets, liabilities, income, expenses of the acquirer; whereas assets, liabilities, income, expenses of acquiree (of S Leasing d.o.o. Podgorica) are incorporated only from the date of the merger which is 12th December 2022.

Effects of merger recognized at the merger date:

in EUR million	12 December 2022
Cash and cash balances	5
Property and equipment	0
Other asset	0
Finance lease receivables	16
Trade and other receivables	0
Financial liabilities measured at amortised cost	(19)
Other liabilities	(0)
Elimination of carrying amount of the investments in subsidiary	(2)
Difference recognised in Equity, incl.: · **Retained earnings**	**1**

47. Investment in subsidiaries

Subsidiaries are entities over which the Group has control.
All entities directly or indirectly controlled by the Group are consolidated in the Group financial statements on the basis of their annual accounts as of 31 December 2023, and for the year then ended.
The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and thhe consolidated statement of other comprehensive income from the date of acquisition or up to the date of disposal.

In the Bank's separate financial statements, investments in subsidiaries are accounted at cost less impairment, if any.
The financial statements of the Bank’s subsidiaries are prepared for the same reporting year as that of the Group and using consistent accounting policies.
Non-controlling interests represent the portion of total comprehensive income and net assets of subsidiaries that is not attributable, directly or indirectly, to the owners of the Bank. Non-controlling interest is presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position.

47. Investment in subsidiaries (continued)

Material accounting judgements, assumptions and estimates

Control

Assessing the existence of control may require considerable accounting judgements, assumptions and estimates, notably in non-standard situations such as:

_ power stemming both from voting rights and from contractual arrangements (or mostly from the latter);
_ exposure to variable returns from the involvement with the investee stemming from on-balance investments and from off-balance commitments or guarantees (or mostly from the latter); or from readily identifiable income streams (e.g. dividends, interest, fees) and from cost savings, economies of scale and/or operational synergies (or mostly from the latter).

The Group has considered the local legislation and the Incorporation Act of the Company and concluded that in accordance with the Incorporation Act the Bank controls the Company. According to the Incorporation Act of the Company the decisions at the shareholders level, requiring unanimous decision-making, are of a protective nature. The decisions over relevant activities are taken by the simple majority of the Supervisory Board members of the Company, where the Bank has the right to appoint the majority of the members, and therefore controls the Company.
Furthermore, the Bank has the ability to use its power over the Company to affect the amount of the investor's returns. The Bank has established frame within which can keep track of The Company's portfolio movement as well as their entire business operations. Close collaboration has been established between sales business lines as well as constant coordination of risk management organisational parts, respectively strategic risk management of the Company has been implemented and strategic management of the entire Company's relevant business aspects.

Following the acquisition of the additional stake in Erste Leasing d.o.o. (the Company) in 2014, the Bank has ownership interest of 50% in the Company. The other 50% interest is held by Steiermarkische Bank und Sparkassen AG, Austria. The Group consolidates the Company based on the assessment of control over its relevant activities as defined by IFRS 10 Consolidated Financial Statements.

Investment in subsidiaries

Subsidiaries	Main business activity	Ownership % held		Group's share of net assets		Investment at cost less impairment	
in EUR million		2022	2023	2022	2023	2022	2023
Erste Nekretnine d.o.o.	Real estate business	100%	100%	1	1	0	0
Erste Card Club d.o.o.	Financial intermediation and services	100%	100%	187	189	65	65
Izbor Nekretnina d.o.o.	Real estate management and lease	100%	100%	1	1	0	0
Erste Bank AD, Podgorica	Credit institution	100%	100%	108	126	13	13
Erste&Steiermarkische S-leasing d.o.o.	Leasing company	50%	50%	28	31	12	12
Erste Group IT HR d.o.o.	IT engineering	80%	100%	1	2	0	1
Direct control				**326**	**350**	**90**	**91**
Total subsidiaries:				**326**	**350**	**90**	**91**

The following subsidiaries have non material Non-Controlling Interest (NCI):

_ Erste & Steiermarkische S-leasing d.o.o. (50%)
_ Erste Group IT HR d.o.o. (20%)

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which the banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios.

48. Investments in associates

The Group's share of the associate's result is recognised in the consolidated statement of profit or loss in line item 'Net result from equity method investments'. The line item contains result from associates recorded by applying the equity method (measured as investor's share of profit or loss in the associates).
However, impairment losses, reversal of impairment losses and realised gains and losses on investments in associates accounted for using the equity method are reported under the line item 'Other operating result'.

Investment in associates

Associates	Erste d.o.o.	
Country of Incorporation	Croatia	
Place of business	Croatia	
Main business activity	Management company for obligatory and voluntary pension fund	
in EUR million	2022	2023
Ownership % held	45.86%	45.86%
IFRS Classification	Associate	Associate
Reporting currency	EUR	EUR
Dividend income received	1	1
Impairment loss recognized (cumulative basis)	-	-
Impairment loss recognized (for the reporting year)	-	-
Investee's key financial information for the reporting year (as at reporting-year-end)		
Financial assets	15	17
Other assets	3	3
Financial liabilities	-	-
Other liabilities	3	3
Revenue	10	11
Expense	(7)	(8)
Investment at cost	5	5
Reconciliation of investee's net assets against equity investment's carrying amount	4	4
Net assets attributable to the Group	9	9

Other disclosure matters

49. Related-party transactions

When considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Transactions with related parties are done at arm's length. Therefore, the applicable interest rates and other terms (maturity dates and collateral) represent market conditions.

The parent company (which is also the ultimate controlling parent entity of the entire group) is Erste Group Bank AG, Vienna (EGB). Entity with significant influence on the Group is Steiermärkische Bank und Sparkassen AG.
The 'Key management personnel' includes Management Board and Supervisory Board while 'Other' includes close family members of key management personnel.

As at 31 December 2023 and 31 December 2022, balances outstanding with related parties comprised:

ASSET						GROUP
in EUR million	Loans, receivables and other demand deposits	Derivatives 2022	Other	Loans, receivables and other demand deposits	Derivatives 2023	Other
Entity with significant influence on the Group	-	-	1	-	-	-
Key management personnel	-	-	-	6	-	-
Parent company	40	25	-	27	20	-
Other EGB companies	-	-	2	1	-	-
Total assets	**40**	**25**	**3**	**34**	**20**	**-**

LIABILITIES						GROUP
in EUR million	Deposits	Derivatives 2022	Other	Deposits	Derivatives 2023	Other
Entity with significant influence on the Group	440	-	-	488	-	-
Key management personnel	2	-	-	6	-	-
Parent company	360	-	-	126	2	-
Other EGB companies	21	-	-	21	-	-
Other	-	-	-	1	-	-
Associates	5	-	-	-	-	-
Total liabilities	**828**	**-**	**-**	**642**	**2**	**-**

ASSET						BANK
in EUR million	Loans, receivables and other demand deposits	Derivatives 2022	Other	Loans, receivables and other demand deposits	Derivatives 2023	Other
Key management personnel	-	-	-	6	-	-
Parent company	25	25	-	12	20	-
Other EGB companies	-	-	1	1	-	-
Subsidiaries	12	-	-	10	-	-
Total assets	**37**	**25**	**1**	**29**	**20**	**-**

49. Related-party transactions (continued)

LIABILITIES						BANK
in EUR million	Deposits	Derivatives 2022	Other	Deposits	Derivatives 2023	Other
Entity with significant influence on the Group	76	-	-	76	-	-
Key management personnel	2	-	-	6	-	-
Parent company	287	-	-	92	2	-
Other EGB companies	21	-	-	21	-	-
Other	-	-	-	1	-	-
Subsidiaries	25	-	-	42	-	-
Associates	5	-	-	-	-	-
Total liabilities	**416**	**-**	**-**	**238**	**2**	**-**

STATEMENT OF PROFIT OR LOSS	GROUP		BANK	
in EUR million	2022	2023	2022	2023
Interest income	**4**	**18**	**4**	**16**
Parent company	4	18	4	16
Fee income	**4**	**2**	**18**	**20**
Parent company	1	-	1	-
Other EGB companies	2	2	2	2
Subsidiaries	-	-	14	18
Associates	1	-	1	-
Gains and losses from net trading result	**20**	**2**	**20**	**2**
Parent company	20	2	20	2
Other operating income	**6**	**1**	**2**	**3**
Parent company	1	1	-	1
Subsidiaries	2	-	2	2
Other EGB companies	3	-	-	-
Total income	**34**	**23**	**44**	**41**

STATEMENT OF PROFIT OR LOSS	GROUP		BANK	
in EUR million	2022	2023	2022	2023
Interest expense	**14**	**39**	**8**	**27**
Entity with significant influence on the Group	5	15	1	3
Parent company	9	24	7	23
Subsidiaries	-	-	-	1
Fee expense	**5**	**5**	**7**	**6**
Parent company	1	1	1	1
Other EGB companies	4	4	3	3
Subsidiaries	-	-	3	2
Other administrative expenses	**15**	**16**	**22**	**26**
Parent company	2	2	1	2
Other EGB companies	13	14	11	13
Subsidiaries	-	-	10	11
Other operating expenses	**-**	**-**	**-**	**-**
Total expenses	**34**	**60**	**37**	**59**

Significant related party transactions are related to financial services and IT activities.

49. Related-party transactions (continued)

OFF BALANCE ITEMS in EUR million	GROUP 2022	GROUP 2023	BANK 2022	BANK 2023
Guarantees issued	**2**	**4**	**2**	**4**
Parent company	2	2	2	2
Other EGB companies	-	2	-	2
Subsidiaries	-	-	-	-
Undrawn credit and loan commitments	**-**	**1**	**23**	**38**
Key management personnel	-	1	-	-
Subsidiaries	-	-	23	38
Total commitments and contingent liabilities	**2**	**5**	**25**	**42**

The Bank and the Group perform transactions related to short-term and long-term financing. Short-term financing means short-term loans, short-term and demand deposits, repurchase agreements, derivatives. The main feature of these deals is that they are contracted on regulated markets. The deals concluded through such platforms are contracted according to the conditions quoted there at the time of contracting the deals. This means that interests are determined according to current market conditions, regardless of whether the transaction is closed with a related or unrelated company.

As of 31 December 2023, the Group and the Bank had cash deposit in amount of EUR 18 million as collateral within Amounts due to banks from the parent company (2022: EUR 25 million) using ESTER interest rate (Euro short-term rate).

The amounts reported on position Other EGB companies are related to Other demand deposits.

Terms and conditions related to the long-term financing are disclosed in the Note 16.

Borrowings from parent company as of 31 December 2023, were EUR 42 million for the Group (2022: EUR 268 million) and EUR 8 million for the Bank (2022: EUR 196 million) which is included in column 'Deposits'.

The remuneration of key management personnel were as follows:

in EUR million	GROUP 2022	GROUP 2023	BANK 2022	BANK 2023
Management Board				
Wages and salaries	4	4	2	2
Bonuses	3	2	1	1
Total remuneration	**7**	**6**	**3**	**3**

50. Share-based payments

Phantom Share Program

On yearly basis, however subject to a separate yearly annual approval process each year, the Group grants a bonus to selected employees (variable remuneration component) for services rendered during the year (performance year). The payment is only made if the regulatory requirements in respect of financial result and capital requirements (RAS indicators) are met, both for Erste Group Bank AG and the Group. If the individual bonus exceeds a certain limit, the final payment amount of at least 50% of the individual bonus determined at the end of the performance year depends on the development of the average, volume-weighted daily price of Erste Group Bank AG shares in subsequent years ("Phantom Share Program").

The corresponding portion of the individual bonus is converted into share equivalents (phantom shares) using the average, volume-weighted, daily share price of Erste Group Bank AG during the performance year. The share equivalents are divided into several tranches, which differ based on the development of the Erste Group Bank AG share price during the vesting period. At the end of the respective vesting period, the amount that will be paid out in the following year is determined from the corresponding number of share equivalents and the average price. The vesting period corresponds to the performance year. Part of the bonus converted into share equivalents (phantom shares) is paid out in a year following the vesting period, while the remaining part is paid out in equal tranches over the next five years (retention period).

The Phantom Share Program meets the criteria for share-based payment with cash settlement in accordance with IFRS 2.

50. Share-based payments (continued)

Since the Group receives the entire work service in the respective performance year, the estimated amount of the variable remuneration for stock equivalents is recognized as a liability at fair value. The final determination of the calculated and allocated share equivalents takes place in the following year. The liability for share equivalents, that have not yet been paid out, is continuously measured at fair value, up to the cap limit. until it is paid out. Changes in fair value up to the final allocation in subsequent years are recognized in profit or loss. To determine the fair value, the number of share equivalents not yet paid out on the balance sheet date, is multiplied by the estimated average price of Erste Group Bank AG share for the respective year of payment. The estimated average share prices for the respective payment year are determined using an Option pricing model (Black-Scholes model). The main parameters are the share price of the Erste Group Bank AG share on the balance sheet date and the expected dividend payments up to the date of payment. As of 31 December 2023, the valuation of the liability is based on the average weighted daily share price of Erste Group Bank AG of the year 2023 in the amount of EUR 33.02 (2022: EUR 29.01) per share.
It is expected that 48,617 share equivalents with a fair value of EUR 2 million will be granted to eligible employees for the Group and 37,509 share equivalents with a fair value of EUR 1 million will be granted to eligible employees for the Bank (2022: 46,206 share equivalents with a fair value of EUR 1 million for the Group and 34,474 share share equivalents with a fair value of EUR 1 million for the Bank).
The total expense recorded for the Phantom Share Program in the reporting period amounts to EUR 2 million for the Group and EUR 1 million for the Bank (2022: EUR 1 million for the Group and EUR 0.3 million for the Bank), the book value of the liability as of the balance sheet date is EUR 5 million for the Group and EUR 4 million for the Bank (2022: EUR 4 million for the Group and EUR 3 million for the Bank).

We Share Program

The WeShareParticipation program and WeShare-Investment Plus program are cash-settled share-based payment transactions based on the fact that that the payment is settled by the Group using Erste Group Bank AG equity instruments, not own shares. Both programs are offered to employees of the Group provided that the specific requirements are met.
Under the WeShare-Investment Plus part program all employees, who had been employed by an entity of the Group, from April 2023 until September 2023 could voluntarily invest in Erste Group shares and receive free shares depending on the amount of their personal investment. The WeShare-Investment Plus program was settled in September 2023. The number of free shares, which were granted under this program for the period, is 19,543 (2022: 40,980). Personnel expenses in the amount of EUR 611 thousand were recorded (2022: EUR 958 thousand).

Under the WeShare-Participation program all employees, who have been employed by an entity of the Group for at least six months in year 2022 and are still employed until the transfer of the shares to the employees in 2023 are entitled to receive shares in an equivalent amount of EUR 350. The expected number of free shares granted under this program for the period, is 32,462 for the Group and for 24,795 for the Bank (2022: 48,250 for the Group and 37,126 for the Bank). Based on the number of entitled employees, personnel expenses in the amount of EUR 1 million for the Group and EUR 1 million for the Bank (2022: EUR 0.7 million for the Group and EUR 0.5 million for the Bank) were recorded. In the statement of financial position, liability is presented in the line item ‚Other liabilities'.

51. Audit fees and tax consultancy fees

The following table contains fundamental audit fees by the auditors in the financial years 2023 and 2022:

	GROUP		BANK	
in EUR million	2022	2023	2022	2023
Audit fees	1	1	-	1
Total	**1**	**1**	**-**	**1**

In the period from 1 January 2023 to 31 December 2023 the auditors provided two permissible non-audit services to the Bank. They are consultat services for annual update of the documentation related to Multi Issuer Program and Retail programe and assurance for contribution to SRB, as well in 2022. Total fee for provided non-audit services is not material.

52. Analysis of remaining maturities

Expected cash flows are broken down by contractual maturities in accordance with the amortization schedule and arranged in maturity ranges less than 1 year and more than 1 year. The following table shows the contractual maturities as of 31 December 2023 and 31 December 2022.

				GROUP
in EUR million	2022		2023	
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash balances	3,449	-	2,355	-
Financial assets HfT	3	23	5	18
Derivatives	2	23	5	18
Other financial assets held for trading	1	-	-	-
Non-trading financial assets at FVPL	3	5	4	3
Equity instruments	-	3	1	-
Debt securities	3	2	3	3
Financial assets at FVOCI	298	918	460	633
Debt securities	298	918	460	633
Financial assets at AC	2,209	7,221	2,168	8,189
Debt securities	87	1,244	145	1,658
Loans and advances to banks	371	12	46	22
Loans and advances to customers	1,751	5,965	1,977	6,509
Finance lease receivables	128	272	144	339
Trade and other receivables	172	-	170	-
Property, plant and equipment	-	155	-	161
Investment properties	-	1	-	2
Intangible assets	-	23	-	19
Investments in associates	-	9	-	9
Current tax assets	1	-	2	-
Deferred tax assets	-	54	-	41
Assets held for sale	1	-	-	-
Other assets	17	18	16	14
TOTAL ASSETS	**6,281**	**8,699**	**5,324**	**9,428**
Financial liabilities HfT	2	21	4	17
Derivatives	2	21	4	17
Financial liabilities measured at amortised cost	11,778	1,487	11,145	1,696
Deposits from banks	929	559	274	510
Deposits from customers	10,691	484	10,733	649
Debt securities issued	40	444	-	537
Other financial liabilities	118	-	138	-
Lease liabilities	3	9	2	12
Provisions	60	29	65	10
Tax liabilities	34	-	18	-
Other liabilities	91	5	102	6
TOTAL LIABILITIES	**11,968**	**1,551**	**11,336**	**1,741**

52. Analysis of remaining maturities (continued)

in EUR million	2022		2023	BANK
	< 1 year	> 1 year	< 1 year	> 1 year
Cash and cash balances	3,269	-	2,186	-
Financial assets HfT	3	23	4	19
Derivatives	2	23	4	19
Other financial assets held for trading	1	-	-	-
Non-trading financial assets at FVPL	3	5	4	3
Equity instruments	-	3	1	-
Debt securities	3	2	3	3
Financial assets at FVOCI	297	869	456	583
Equity instruments	-	1	-	-
Debt securities	297	868	456	583
Financial assets at AC	1,900	6,844	1,840	7,780
Debt securities	87	1,203	145	1,612
Loans and advances to banks	332	13	9	22
Loans and advances to customers	1,481	5,628	1,686	6,146
Trade and other receivables	117	-	109	-
Property, plant and equipment	-	106	-	113
Intangible assets	-	15	-	13
Investments in subsidiaries	-	90	-	91
Investments in associates	-	5	-	5
Deferred tax assets	-	45	-	33
Other assets	6	17	5	13
TOTAL ASSETS	**5,595**	**8,019**	**4,604**	**8,653**
Financial liabilities HfT	2	21	4	17
Derivatives	2	21	4	17
Financial liabilities measured at amortised cost	11,058	1,154	10,370	1,308
Deposits from banks	734	282	117	191
Deposits from customers	10,245	428	10,201	580
Debt securities issued	40	444	-	537
Other financial liabilities	39	-	52	-
Lease liabilities	3	9	3	12
Provisions	59	18	63	8
Tax liabilities	31	-	16	-
Other liabilities	61	5	71	6
TOTAL LIABILITIES	**11,214**	**1,207**	**10,527**	**1,351**

53. Events after balance sheet date

Merger under common control

On January 2, 2024, pursuant to the Decision of the Commercial Court in Rijeka and in accordance with the Agreement of merger as of June 30, 2023, company Erste Group IT HR d.o.o. was merged to the Bank.
The transaction is a business combination under common control and was accounted for using a predecessor value method. The carrying amounts of assets and liabilities of Erste Group IT HR d.o.o. from the consolidated financial statements of the Group were used to account for this transaction. The difference between carrying amount of the investment in subsidiary (recognised before the merger at cost in the separate FS of the surviving entity) and the carrying amount of the net assets of the acquired company is recognised in equity (in Retained earnings) in amount of EUR 1 million.

Issued bonds

In January 2024, the Bank issued its first green "preferred senior" bond on the international capital market, in the total nominal amount of EUR 400 million, maturing in 2029 with the call option after four years. The bond was issued with an annual interest rate of 4.875%.
The issue was realized in order to fulfill the Minimum Requirement for own funds and Eligible Liabilities (MREL requirement).
The bond was issued within the Erste Group Sustainable Finance Framework, making the Bank the first bank in Croatia to successfully issue a green bond.

54. Country-by-country reporting

Country	Operating income	Pre-tax result from continuing operations	Income tax	Employees
2023				**GROUP**
Croatia	520	278	(50)	2,955
Montenegro	39	20	(3)	336
Total	**559**	**298**	**(53)**	**3,291**

Country	Operating income	Pre-tax result from continuing operations	Income tax	Employees
2022				**GROUP**
Croatia	414	190	(47)	399
Montenegro	32	15	(2)	42
Total	**446**	**205**	**(49)**	**441**

Own funds and capital requirements

55. Own funds and capital requirements

Regulatory Requirements

Since 1 January 2014, the Group has been calculating the regulatory own funds and the regulatory capital requirements according to the Capital Requirements Regulation (CRR, Regulation (EU) No. 575/2013) and the Capital Requirement Directive (CRD IV, Directive (EU) 2013/36/EU)[2]. Both the CRD IV and CRD V were enacted in national law in Croatian Credit Institutions Act (ZOKI), as well as within various technical standards issued by the European Banking Authority (EBA).

All requirements as defined in the CRR, ZOKI and the aforementioned technical standards are fully applied by the Group for regulatory purposes and for the disclosure of regulatory information.

Furthermore, the Group also fulfils capital requirements determined in the Supervisory Review and Evaluation Process (SREP).

Accounting Principles

The financial and regulatory figures published by the Group are based on International Financial Reporting Standards as adopted by the European Union („IFRS"). Eligible capital components derived from the Statement of financial position and Statement of profit or loss which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scope of consolidation and for items where the regulatory treatment is not equal to the accounting requirements.
The uniform closing date of the consolidated financial statements and consolidated regulatory figures of the Group is the 31 December of each respective year.

Regulatory scope of consolidation

The definition of entities to be consolidated for regulatory purposes are mainly defined in Articles 4 (1) (3) and (16) to (27) CRR in line with the Articles 18 and 19 CRR. Based on the relevant sections in Article 4 CRR, entities to be consolidated are determined based on the business activity of the relevant entities.
Moreover, Art. 18 (7) CRR applies: Where an institution has a subsidiary which is an undertaking other than an institution, a financial institution or an ancillary service undertaking or holds a participation in such an undertaking, it shall apply to that subsidiary or participation the equity method. That method shall not, however, constitute inclusion of the undertakings concerned in supervision on a consolidated basis.
The definition pursuant to CRR differs from the scope of consolidation according to IFRS, which also includes insurance companies and other entities, that are subject to full consolidation.

[2] Both CRD IV and CRR have been amended since the entry into force in 2014 inter alia with Directive (EU) 2019/878 (CRD V) as well as regu-lations (EU) 2019/876 (CRR 2) and (EU) 2020/873 (CRR Quick Fix).

55. Own funds and capital requirements (continued)

Own funds

The Bank and Group maintain an actively managed capital base to cover risks in the business. The total capital adequacy ratio for the Bank and the Group is 21,3%, which is an increase of 0,9 percentage points on an individual basis and 0,8 percentage points on a consolidated basis compared to 2022.

Own funds according to CRR consists of Common equity Tier 1 (CET 1), Additional Tier 1 capital (AT 1) and Tier 2 capital (T2). According to article 92 CRR credit institutions are required to fulfil following requirements; CET 1 capital ratio in amount of 4.5%, Tier 1 capital ratio in amount of 6% and total capital ratio in amount of 8%.

Capital buffer requirements are set out in section VII of the Credit institutions Act (ZOKI). Capital conservation buffer, countercyclical buffer, Globally Systemic Important Institutions buffer, Other Systemic Important Institutions and Systemic risk buffer are further specified in Credit Institutions Act section VII. All capital buffers have to be met entirely with CET1 capital. The sum of all CRD buffers applicable to a Bank is defined as the ‘Combined Buffer Requirement’ (CBR).

Article 117 of ZOKI requires that the Group and the Bank cover capital conservation buffer in amount of 2.5%. Besides capital conservation buffer the Group and the Bank have to establish systemic risk buffer in amount 1,5% in accordance with articles 129, 130, 131 and Other Systemic Important Institution (O-SII) buffer in the amount of 2% in accordance with articles 137, 138 and 139 of ZOKI.
According to Article 119 of ZOKI, the Croatian National Bank has determined the level of the countercyclical capital buffer rate to preserve the resilience of the banking system against potential systemic risks or sudden shocks. In 2022, the rate was set at 0%, while on December 31, 2023, it was set at 1%.

In addition to minimum capital ratios and capital buffer requirements, institutions also have to fulfil capital requirements determined in the Supervisory Review and Evaluation Process (SREP). The Bank applies a Pillar 2 requirement (P2R) of 1.75% as of 01. January 2023. Capital quantitative requirement has to be held in the minimum form of 56.25% of Common Equity Tier 1 capital and 75% of Tier 1 capital. The Pillar 2 Guidance (P2G) for the Bank is determined on a sub-consolidated and on an individual level as 1% of total risk exposure amount as of 01. January 2023.

Overview of capital requirements and capital buffers

	Dec 22	Dec 23
Pillar 1		
Minimum CET 1 requirement	4.50%	4.50%
Minimum Tier 1 requirement	6.00%	6.00%
Minimum Own Funds requirement	8.00%	8.00%
Combined buffer requirement (CBR)	**6.00%**	**6.93%**
Capital conservation buffer	2.50%	2.50%
Countercyclical capital buffer	0.00%	0.93%
Systemic risk buffer	1.50%	1.50%
O-SII capital buffer	2.00%	2.00%
Minimum CET 1 requirement (incl.CBR)	10.50%	11.43%
Minimum Tier 1 requirement (incl.CBR)	12.00%	12.93%
Minimum Own Funds requirement (incl.CBR)	14.00%	14.93%
Pillar 2	**1.75%**	**1.75%**
Minimum CET1 requirement	0.98%	0.98%
Minimum T1 requirement	1.31%	1.31%
Minimum Own Funds requirement	1.75%	1.75%
Total CET 1 requirement for Pillar 1 and Pillar 2	**11.48%**	**12.41%**
Total Tier 1 requirement for Pillar 1 and Pillar 2	**13.31%**	**14.24%**
Total Capital requirement for Pillar 1 and Pillar 2	**15.75%**	**16.68%**

55. Own funds and capital requirements (continued)

Capital structure according to the EU regulation 575/2013 (CRR)

		GROUP		BANK	
in EUR million	**Article pursuant to CRR**	**2022**	**2023**	**2022**	**2023**
Common equity tier 1 capital (CET1)					
Capital instruments eligible as CET1	26(1)(a)(b), 27-30, 36(1)(f), 42	464	464	464	464
Retained earnings	26(1)(c), 26(2)	966	1,087	724	823
Accumulated other comprehensive income	4(1)(100), 26(1)(d)	(89)	(43)	(84)	(40)
Other reserves		11	11	11	11
Common equity tier 1 capital (CET1) before regulatory adjustments		**1,352**	**1,519**	**1,115**	**1,258**
Own CET1 instruments	36(1)(f), 42	-	-	-	-
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33(1)(c), 33(2)	(1)	(1)	(1)	(1)
Value adjustments due to the requirements for prudent valuation	34, 105	(3)	(2)	(3)	(2)
Goodwill	4(1)(113), 36(1)(b), 37	-	-	-	-
Other intangible assets	4(1)(115), 36(1)(b), 37(a)	(11)	(10)	(8)	(6)
DTA that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	36(1)(c), 38	-	-	-	-
IRB shortfall of credit risk adjustments to expected losses	36(1)(d), 40, 158, 159	-	-	-	-
Insufficient coverage for non-performing exposures		(2)	(4)	(1)	(3)
CET1 capital elements or deductions – other		-	-	-	-
Additional deductions of CET1 Capital due to Article 3 CRR		(8)	(9)	(8)	(9)
Common equity tier 1 capital (CET1)	**50**	**1,327**	**1,493**	**1,094**	**1,237**
Additional tier 1 capital (AT1)	**61**	**-**	**-**	**-**	**-**
Tier 1 capital = CET1 + AT1	**25**	**1,327**	**1,493**	**1,094**	**1,237**
Tier 2 capital (T2)					
Capital instruments and subordinated loans eligible as T2	62(a), 63-65, 66(a), 67	12	-	12	-
IRB excess of provisions over expected losses eligible	62(d)	28	29	29	30
Tier 2 capital (T2)	**71**	**40**	**29**	**41**	**30**
Total own funds	**4(1)(118) and 72**	**1,367**	**1,522**	**1,135**	**1,267**
Capital requirement	**92(3), 95, 96, 98**	**560**	**571**	**467**	**476**
CET1 capital ratio	**92(2)(a)**	**19.0%**	**20.9%**	**18.7%**	**20.8%**
Tier 1 capital ratio	**92(2)(b)**	**19.0%**	**20.9%**	**18.7%**	**20.8%**
Total capital ratio	**92(2)(c)**	**19.5%**	**21.3%**	**19.4%**	**21.3%**

The Bank and the Group fulfilled all of the capital requirements in the year 2022. and in 2023. In accordance with Art. 26 (2) CRR the item retained earnings includes the eligible profits of EUR 120.5 million (the Bank EUR 98.6 million) approved by the European Central Bank by decision of 9 February 2024.

The position CET1 elements or deduction – Others include development of unaudited risk provisions during the year (EU No 183/2014) and insufficient coverage for non-performing exposures (NPE Backstop) covering the requirements from both Art. 36 para 1 (m) CRR in connection with Art. 47(c) CRR and the Addendum to the ECB Guidance to banks on non-performing loans: supervisory expectations for prudential provisioning of non-performing exposures.

The capital structure table above is based on the Commission Implementing Regulation (EU) No 2021/637 laying down implementing technical standards regarding to disclosure of own funds requirements. Positions, which are not relevant for Group are not disclosed. Figures shown under full implementation of Basel 3 considered the current CRR.

55. Own funds and capital requirements (continued)

Risk structure according to EU regulation 575/2013 (CRR)

GROUP in EUR million	2022 Total risk (final)	2022 Capital requirement (final)	2023 Total risk (final)	2023 Capital requirement (final)
Total risk exposure amount	6,995	560	7,142	571
Risk-weighted assets (credit risk)	6,130	490	6,315	505
Standardised approach	1,421	114	1,526	122
IRB approach	4,709	377	4,789	383
Trading book, foreign FX risk and commodity risk	138	11	4	-
Operational risk	723	58	819	66
Exposure for CVA	4	-	4	-

BANK in EUR million	2022 Total risk (final)	2022 Capital requirement (final)	2023 Total risk (final)	2023 Capital requirement (final)
Total risk exposure amount	5,840	467	5,950	476
Risk-weighted assets (credit risk)	5,226	418	5,297	424
Standardised approach	315	25	297	24
IRB approach	4,911	393	5,000	400
Trading book, foreign FX risk and commodity risk	60	5	4	-
Operational risk	550	44	645	52
Exposure for CVA	4	-	4	-

At the end of 2023 total risk-weighted assets for credit risk at Bank level amounted EUR 5,3 billion, which is an increase by EUR 70,5 million compared to the previous year. The growth in RWA was mainly driven by increase in asset size in SME, Large Corporates, Privates and Real Estate segments. The total RWA increase, driven by asset size, was partially offset by the positive impact of implementation of new Corporate rating models as well as new rating model for Sovereign portfolio.
At the local Group level, credit RWA recorded even stronger increase of EUR 184,5 million mainly, driven by already mentioned RWA increase at Bank level, as well as increase in asset size of subsidiaries Erste&Steiermärkische S-Leasing and Erste Bank AD Podgorica.

The Group uses the standardised approach for the purposes of the calculating the capital requirements for market risk. The risk primarily arises from derivative transactions (FX Swap, FX Forward and Interest Rate Swap) with clients and capital requirements for currency risk based on the calculation of the total net foreign exchange position. Standardised approach for counterparty credit risk (SA-CCR) according to CRR II Art. 274 -280 is used to manage credit risk from derivatives.

The Bank is using the standardized approach (”TSA”) for the capital requirement calculation, according to CRR, as well as the Group Members Erste Card Club d.o.o. and Erste&Steiermärkische S-Leasing d.o.o., while Erste Bank AD Podgorica applies Basic indicator approach (“BIA“). The Bank provides the operational risk capital requirement in such a way that it is constantly adequate to the type, range and complexity of its services as well as to its operational risk exposure or possible exposure within its scope of services.

Forms according to local requirements

Pursuant to the Decision of the CNB on structure and content of Bank's annual financial statements (Official Gazette 42/2018, 122/2020, 119/2021 and 108/2022) below we present the required forms for the Group and the Bank for the year ended 31 December 2023 in the form required by the decision. Information about the basis of presentation as well as a summary of accounting policies are given in the notes to the financial statements. Information important for better understanding of certain positions of the statement of financial position, statement of profit or loss, changes in equity as well as cash flow statement are also included in the notes.

Differences between forms (appendix 1) presented below on pages 242 to 251 and primary financial statements are presented in appendix 2 titled Differences between financial statements according to IFRS and local requirements.

Income statement			**GROUP**
In EUR million		**2022**	**2023**
1.	Interest income	313	513
2.	(Interest expenses)	32	103
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	-	-
5.	Fees and commissions income	159	171
6.	(Fees and commissions expenses)	42	46
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	(21)
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	31	15
9.	Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(2)	1
10.	Gains or (-) losses on derecognition of financial assets and liabilities at fair value through profit or loss, net	-	-
11.	Gains or (-) losses from hedge accounting, net	-	-
12.	Exchange rate differences [gain or (-) loss], net	9	-
13.	Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates, net	-	-
14.	Gains or (-) losses on derecognition of non-financial assets, net	3	2
15.	Other operating income	10	9
16.	(Other operating expenses)	5	11
17.	**Total operating income, net (1 – 2 – 3 + 4 + 5 – 6 + from 7 to 15 – 16)**	**444**	**530**
18.	(Administrative expenses)	199	224
19.	(Cash contributions to resolution boards and deposit guarantee schemes)	12	9
20.	(Depreciation)	32	31
21.	Modification gains or (-) losses, net	-	(1)
22.	(Provisions or (-) reversal of provisions)	53	29
23.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(70)	(60)
24.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-	-
25.	(Impairment or (-) reversal of impairment on non-financial assets)	17	-
26.	Negative goodwill recognised in profit or loss	-	-
27.	Share of the profit or (-) losses of investments in subsidiaries, joint ventures and associates accounted for using the equity method	1	1
28.	Profit or (-) loss from fixed assets and disposal groups classified as held for sale not qualifying as discontinued operations	4	1
29.	**Profit or (-) loss before tax from continuing operations (17 – 18 to 20 + 21 - from 22 to 25 + from 26 to 28)**	**205**	**298**
30.	(Tax expense or (-) income related to profit or loss from continuing operations)	49	53
31.	**Profit or (-) loss after tax from continuing operations (29 – 30)**	**156**	**245**
32.	**Profit or (-) loss after tax from discontinued operations (33 – 34)**	**-**	**-**
33.	Profit or (-) loss before tax from discontinued operations	-	-
34.	(Tax expense or (-) income related to discontinued operations)	-	-
35.	**Profit or (–) loss for the year (31 + 32; 36 + 37)**	**156**	**245**
36.	Attributable to minority interest [non-controlling interests]	(1)	4
37.	Attributable to owners of the parent	156	241
STATEMENT OF OTHER COMPREHENSIVE INCOME		**-**	**-**

Income statement			GROUP
In EUR million		**2022**	**2023**
38.	Income or (-) loss for the current year	156	245
39.	**Other comprehensive income (40+ 52)**	**(108)**	**47**
40.	**Items that will not be reclassified to profit or loss (from 41 to 47) + 50 + 51)**	**-**	**-**
41.	Tangible assets	-	-
42.	Intangible assets	-	-
43.	Actuarial gains or (-) losses on defined benefit pension plans	-	-
44.	Fixed assets and disposal groups classified as held for sale	-	-
45.	Share of other recognised income and expense of entities accounted for using the equity method	-	-
46.	Fair value changes of equity instruments measured at fair value through other comprehensive income	-	-
47.	Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
48.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
49.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
50.	Fair value changes of financial liabilities measured at fair value through profit or loss attributable to changes in their credit risk	-	-
51.	Income tax relating to items that will not be reclassified	-	-
52.	**Items that may be reclassified to profit or loss (from 53 to 60)**	**(108)**	**47**
53.	Hedge of net investments in foreign operations [effective portion]	-	-
54.	Foreign currency translation	-	-
55.	Cash flow hedges [effective portion]	-	-
56.	Hedging instruments [not designated elements]	-	-
57.	Debt instruments at fair value through other comprehensive income	(132)	57
58.	Fixed assets and disposal groups classified as held for sale	-	-
59.	Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
60.	Income tax relating to items that may be reclassified to profit or (-) loss	24	(10)
61.	**Total comprehensive income for the current year (38 + 39; 62 + 63)**	**48**	**292**
62.	Attributable to minority interest [non-controlling interest]	(1)	4
63.	Attributable to owners of the parent	48	288

Income statement			BANK
In EUR million		2022	2023
1.	Interest income	257	441
2.	(Interest expenses)	25	88
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	6	8
5.	Fees and commissions income	114	125
6.	(Fees and commissions expenses)	35	38
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	(21)
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	30	14
9.	Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(2)	1
10.	Gains or (-) losses on derecognition of financial assets and liabilities at fair value through profit or loss, net	-	-
11.	Gains or (-) losses from hedge accounting, net	-	-
12.	Exchange rate differences [gain or (-) loss], net	12	-
13.	Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates, net	-	-
14.	Gains or (-) losses on derecognition of non-financial assets, net	2	1
15.	Other operating income	4	4
16.	(Other operating expenses)	3	4
17.	**Total operating income, net (1 – 2 – 3 + 4 + 5 – 6 + from 7 to 15 – 16)**	**360**	**443**
18.	(Administrative expenses)	156	179
19.	(Cash contributions to resolution boards and deposit guarantee schemes)	10	7
20.	(Depreciation)	20	19
21.	Modification gains or (-) losses, net	-	-
22.	(Provisions or (-) reversal of provisions)	45	28
23.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(61)	(56)
24.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	17	-
25.	(Impairment or (-) reversal of impairment on non-financial assets)	1	-
26.	Negative goodwill recognised in profit or loss	-	-
27.	Share of the profit or (-) losses of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-
28.	Profit or (-) loss from fixed assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-
29.	**Profit or (-) loss before tax from continuing operations (17 – 18 to 20 + 21 - from 22 to 25 + from 26 to 28)**	**172**	**266**
30.	(Tax expense or (-) income related to profit or loss from continuing operations)	42	47
31.	**Profit or (-) loss after tax from continuing operations (29 – 30)**	**130**	**219**
32.	**Profit or (-) loss after tax from discontinued operations (33 – 34)**	**-**	**-**
33.	Profit or (-) loss before tax from discontinued operations	-	-
34.	(Tax expense or (-) income related to discontinued operations)	-	-
35.	**Profit or (–) loss for the year (31 + 32; 36 + 37)**	**130**	**219**
36.	Attributable to minority interest [non-controlling interests]	-	-
37.	Attributable to owners of the parent	130	219
STATEMENT OF OTHER COMPREHENSIVE INCOME		**-**	**-**
38.	Income or (-) loss for the current year	130	219
39.	**Other comprehensive income (40+ 52)**	**(103)**	**44**
40.	**Items that will not be reclassified to profit or loss (from 41 to 47) + 50 + 51)**	**-**	**-**
41.	Tangible assets	-	-
42.	Intangible assets	-	-
43.	Actuarial gains or (-) losses on defined benefit pension plans	-	-
44.	Fixed assets and disposal groups classified as held for sale	-	-
45.	Share of other recognised income and expense of entities accounted for using the equity method	-	-
46.	Fair value changes of equity instruments measured at fair value through other comprehensive income	-	-
47.	Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
48.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
49.	Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
50.	Fair value changes of financial liabilities measured at fair value through profit or loss attributable to changes in their credit risk	-	-
51.	Income tax relating to items that will not be reclassified	-	-
52.	**Items that may be reclassified to profit or loss (from 53 to 60)**	**(103)**	**44**
53.	Hedge of net investments in foreign operations [effective portion]	-	-
54.	Foreign currency translation	-	-
55.	Cash flow hedges [effective portion]	-	-
56.	Hedging instruments [not designated elements]	-	-
57.	Debt instruments at fair value through other comprehensive income	(126)	54
58.	Fixed assets and disposal groups classified as held for sale	-	-
59.	Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
60.	Income tax relating to items that may be reclassified to profit or (-) loss	23	(10)
61.	**Total comprehensive income for the current year (38 + 39; 62 + 63)**	**26**	**263**
62.	Attributable to minority interest [non-controlling interest]	-	-
63.	Attributable to owners of the parent	26	263

Statement of financial position

	In EUR million		GROUP
		2022	2023
	ASSETS		
1.	**Cash, cash balances at central banks and other demand deposits (from 2 to 4)**	**3,448**	**2,355**
2.	Cash in hand	416	410
3.	Cash balances at central banks	2,943	1,899
4.	Other demand deposits	89	46
5.	**Financial assets held for trading (from 6 to 9)**	**26**	**23**
6.	Derivatives	26	23
7.	Equity instruments	-	-
8.	Debt securities	1	-
9.	Loans and advances	-	-
10.	**Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)**	**8**	**7**
11.	Equity instruments	6	4
12.	Debt securities	2	3
13.	Loans and advances	-	-
14.	**Financial assets at fair value through profit or loss (15 + 16)**	**-**	**-**
15.	Debt securities	-	-
16.	Loans and advances	-	-
17.	**Financial assets at fair value through other comprehensive income (from 18 to 20)**	**1,217**	**1,093**
18.	Equity instruments	1	-
19.	Debt securities	1,216	1,093
20.	Loans and advances	-	-
21.	**Financial assets at amortised cost (22 + 23)**	**10,003**	**11,010**
22.	Debt securities	1,330	1,803
23.	Loans and advances	8,672	9,207
24.	Derivatives – hedge accounting	-	-
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
26.	Investments in subsidiaries, joint ventures and associates	9	9
27.	Tangible assets	156	163
28.	Intangible assets	23	19
29.	Tax assets	55	43
30.	Other assets	36	30
31.	Fixed assets and disposal groups classified as held for sale	1	-
32.	**TOTAL ASSETS (1+5+10+14+17+21+ from 24 to 31)**	**14,980**	**14,752**
	LIABILITIES		
33.	**Financial liabilities held for trading (from 34 to 38)**	**23**	**21**
34.	Derivatives	23	21
35.	Short positions	-	-
36.	Deposits	-	-
37.	Debt securities issued	-	-
38.	Other financial liabilities	-	-
39.	**Financial liabilities at fair value through profit or loss (from 40 to 42)**	**-**	**-**
40.	Deposits	-	-
41.	Debt securities issued	-	-
42.	Other financial liabilities	-	-
43.	**Financial liabilities measured at amortised cost (from 44 to 46)**	**13,278**	**12,855**
44.	Deposits	12,664	12,166
45.	Debt securities issued	484	537
46.	Other financial liabilities	130	152
47.	Derivatives – hedge accounting	-	-
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	89	75
50.	Tax liabilities	33	18
51.	Share capital repayable on demand	-	-
52.	Other liabilities	95	108
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33+39+43+ from 47 to 53)**	**13,519**	**13,077**
	EQUITY		
55.	Capital	225	238
56.	Share premium	239	227
57.	Equity instruments issued other than capital	-	-
58.	Other equity	-	-
59.	Accumulated other comprehensive income	(89)	(42)
60.	Retained profit	891	969
61.	Revaluation reserves	-	-
62.	Other reserves	11	11
63.	(–) Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	156	241
65.	(–) Interim dividends	-	-
66.	Minority interests [Non-controlling interests]	28	31
67.	**TOTAL EQUITY (from 55 to 66)**	**1,461**	**1,675**
68.	**TOTAL EQUITY AND LIABILITIES (54 + 67)**	**14,980**	**14,752**

Statement of financial position			BANK
In EUR million		2022	2023
	ASSETS		
1.	**Cash, cash balances at central banks and other demand deposits (from 2 to 4)**	**3,269**	**2,186**
2.	Cash in hand	370	356
3.	Cash balances at central banks	2,875	1,818
4.	Other demand deposits	24	12
5.	**Financial assets held for trading (from 6 to 9)**	**26**	**23**
6.	Derivatives	25	23
7.	Equity instruments	-	-
8.	Debt securities	1	-
9.	Loans and advances	-	-
10.	**Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)**	**8**	**7**
11.	Equity instruments	6	4
12.	Debt securities	2	3
13.	Loans and advances	-	-
14.	**Financial assets at fair value through profit or loss (15 + 16)**	**-**	**-**
15.	Debt securities	-	-
16.	Loans and advances	-	-
17.	**Financial assets at fair value through other comprehensive income (from 18 to 20)**	**1,166**	**1,039**
18.	Equity instruments	1	-
19.	Debt securities	1,165	1,039
20.	Loans and advances	-	-
21.	**Financial assets at amortised cost (22 + 23)**	**8,860**	**9,729**
22.	Debt securities	1,290	1,757
23.	Loans and advances	7,570	7,972
24.	Derivatives – hedge accounting	-	-
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
26.	Investments in subsidiaries, joint ventures and associates	95	96
27.	Tangible assets	107	113
28.	Intangible assets	15	13
29.	Tax assets	45	33
30.	Other assets	23	18
31.	Fixed assets and disposal groups classified as held for sale	-	-
32.	**TOTAL ASSETS (1+5+10+14+17+21+ from 24 to 31)**	**13,614**	**13,257**
	LIABILITIES		
33.	**Financial liabilities held for trading (from 34 to 38)**	**23**	**21**
34.	Derivatives	23	21
35.	Short positions	-	-
36.	Deposits	-	-
37.	Debt securities issued	-	-
38.	Other financial liabilities	-	-
39.	**Financial liabilities at fair value through profit or loss (from 40 to 42)**	**-**	**-**
40.	Deposits	-	-
41.	Debt securities issued	-	-
42.	Other financial liabilities	-	-
43.	**Financial liabilities measured at amortised cost (from 44 to 46)**	**12,224**	**11,693**
44.	Deposits	11,689	11,089
45.	Debt securities issued	484	537
46.	Other financial liabilities	51	67
47.	Derivatives – hedge accounting	-	-
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	77	71
50.	Tax liabilities	31	16
51.	Share capital repayable on demand	-	-
52.	Other liabilities	66	77
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33+39+43+ from 47 to 53)**	**12,421**	**11,878**
	EQUITY		
55.	Capital	225	238
56.	Share premium	239	227
57.	Equity instruments issued other than capital	-	-
58.	Other equity	-	-
59.	Accumulated other comprehensive income	(84)	(40)
60.	Retained profit	672	724
61.	Revaluation reserves	-	-
62.	Other reserves	11	11
63.	(–) Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	130	219
65.	(–) Interim dividends	-	-
66.	Minority interests [Non-controlling interests]	-	-
67.	**TOTAL EQUITY (from 55 to 66)**	**1,193**	**1,379**
68.	**TOTAL EQUITY AND LIABILITIES (54 + 67)**	**13,614**	**13,257**

Statement of changes in equity

In EUR million **GROUP**

	Attributable to owners of the parent											Non-controlling interests		
	Equity	Share premium	Equity instruments issued other than capital	Other equity instru-ments	Accumulated other comprehensive income	Retained profit	Revaluation reserves	Other reserves	Treasury shares	Profit or loss attributable to owners of the parent	Interim dividends	Accumulated other comprehensiv e income	Other items	Total
Opening balance [before restatement]	**225**	**239**	**-**	**-**	**(89)**	**891**	**-**	**11**	**-**	**156**	**-**	**-**	**28**	**1,461**
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Opening balance (current period) (1 + 2 + 3)	**225**	**239**	**-**	**-**	**(89)**	**891**	**-**	**11**	**-**	**156**	**-**	**-**	**28**	**1,461**
Ordinary shares issue	13	-	-	-	-	-	-	-	-	-	-	-	-	13
Preference shares issue	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of receivables to equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	**-**	**(12)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(12)**
Dividends	-	-	-	-	-	(78)	-	-	-	-	-	-	-	(78)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	**-**	**-**	**-**	**-**	**-**	**156**	**-**	**-**	**-**	**(156)**	**-**	**-**	**-**	**-**
Equity increase or (-) decrease resulting from business combinations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Share based payments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other increase or (-) decrease in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the current year	**-**	**-**	**-**	**-**	**47**	**-**	**-**	**-**	**-**	**241**	**-**	**-**	**3**	**291**
Closing balance [current period] (from 4 to 20)	**238**	**227**	**-**	**-**	**(42)**	**969**	**-**	**11**	**-**	**241**	**-**	**-**	**31**	**1,675**

Statement of changes in equity

In EUR million **BANK**

	Attributable to owners of the parent											Non-controlling interests		
	Equity	Share premium	Equity instruments issued other than capital	Other equity instru-ments	Accumulated other comprehensive income	Retained profit	Revaluation reserves	Other reserves	Treasury shares	Profit or loss attributable to owners of the parent	Interim dividends	Accumulated other comprehensiv e income	Other items	Total
Opening balance [before restatement]	225	239	-	-	(84)	672	-	11	-	130	-	-	-	1,193
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance (current period) (1 + 2 + 3)	225	239	-	-	(84)	672	-	11	-	130	-	-	-	1,193
Ordinary shares issue	13	-	-	-	-	-	-	-	-	-	-	-	-	13
Preference shares issue	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of receviables to equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	(12)	-	-	-	-	-	-	-	-	-	-	-	(12)
Dividends	-	-	-	-	-	(78)	-	-	-	-	-	-	-	(78)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury share	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	130	-	-	-	(130)	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increase or (-) decrease in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the current year	-	-	-	-	44	-	-	-	-	219	-	-	-	263
Closing balance [current period] (from 4 to 20)	238	227	-	-	(40)	724	-	11	-	219	-	-	-	1,379

Cash flow statements			GROUP
	In EUR million	**2022**	**2023**
	Operating activities – direct method		
1.	Interest received and similar receipts	-	-
2.	Fees and commissions received	-	-
3.	(Interest paid and similar expenditures)	-	-
4.	(Fees and commissions paid)	-	-
5.	(Operating expenses paid)	-	-
6.	Net gains/losses from financial instruments at fair value through statement of profit or loss	-	-
7.	Other receipts	-	-
8.	(Other expenditures)	-	-
	Operating activities – indirect method		
9.	Profit/(loss) before tax	205	298
	Adjustments:	-	-
10.	Impairment and provisions	-	(31)
11.	Depreciation	33	30
12.	Net unrealised (gains)/losses on financial assets and liabilities at fair value through statement of profit or loss	-	-
13.	(Profit)/loss from the sale of tangible assets	-	-
14.	Other non-cash items	(3)	1
	Changes in assets and liabilities from operating activities		
15.	Deposits with the Croatian National Bank	(504)	-
16.	Deposits with financial institutions and loans to financial institutions	690	247
17.	Loans and advances to other clients	(1,307)	(1,161)
18.	Securities and other financial instruments at fair value through other comprehensive income	219	168
19.	Securities and other financial instruments held for trading	9	1
20.	Securities and other financial instruments at fair value through statement of profit or loss, not traded	2	1
21.	Securities and other financial instruments mandatorily at fair value through statement of profit or loss	-	-
22.	Securities and other financial instruments at amortised cost	(683)	(505)
23.	Other assets from operating activities	(12)	7
24.	Deposits from financial institutions	5	(233)
25.	Transaction accounts of other clients	1,897	(513)
26.	Savings deposits of other clients	321	39
27.	Time deposits of other clients	(96)	748
28.	Derivative financial liabilities and other liabilities held for trading	15	(3)
29.	Other liabilities from operating activities	578	(399)
30.	Interest received from operating activities [indirect method]	301	481
31.	Dividends received from operating activities [indirect method]	-	-
32.	Interest paid from operating activities [indirect method]	(34)	(96)
33.	(Income tax paid)	(32)	(66)
34.	**Net cash flow from operating activities (from 1 to 33)**	**1,606**	**(986)**
	Investing activities		
35.	Cash receipts from the sale / payments for the purchase of tangible and intangible assets	(25)	(28)
36.	Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures	12	-
37.	Cash receipts from the sale / payments for the purchase of securities and other financial instruments held to maturity	-	-
38.	Dividends received from investing activities	-	-
39.	Other receipts/payments from investing activities	-	-
40.	**Net cash flow from investing activities (from 35 to 39)**	**(13)**	**(28)**
	Financing activities		
41.	Net increase/(decrease) in loans received from financing activities	-	-
42.	Net increase/(decrease) in debt securities issued	-	-
43.	Net increase/(decrease) in Tier 2 capital instruments	-	-
44.	Increase in share capital	-	-
45.	(Dividends paid)	(70)	(78)
46.	Other receipts/(payments) from financing activities	(3)	(1)
47.	**Net cash flow from financing activities (from 41 to 46)**	**(73)**	**(79)**
48.	**Net increase/(decrease) of cash and cash equivalents (34 + 40 + 47)**	**1,520**	**(1,093)**
49.	**Cash and cash equivalents at the beginning of period**	**1,928**	**3,448**
50.	Effect of exchange rate fluctuations on cash and cash equivalents	-	-
51.	**Cash and cash equivalents at the end of period (48 + 49 + 50)**	**3,448**	**2,355**

Cash flow statements			BANK
	In EUR million	**2022**	**2023**
	Operating activities – direct method		
1.	Interest received and similar receipts	-	-
2.	Fees and commissions received	-	-
3.	(Interest paid and similar expenditures)	-	-
4.	(Fees and commissions paid)	-	-
5.	(Operating expenses paid)	-	-
6.	Net gains/losses from financial instruments at fair value through statement of profit or loss	-	-
7.	Other receipts	-	-
8.	(Other expenditures)	-	-
	Operating activities – indirect method		
9.	Profit/(loss) before tax	172	266
	Adjustments:	-	-
10.	Impairment and provisions	1	(28)
11.	Depreciation	20	19
12.	Net unrealised (gains)/losses on financial assets and liabilities at fair value through statement of profit or loss	-	-
13.	(Profit)/loss from the sale of tangible assets	(1)	-
14.	Other non-cash items	1	1
	Changes in assets and liabilities from operating activities		
15.	Deposits with the Croatian National Bank	(504)	-
16.	Deposits with financial institutions and loans to financial institutions	733	269
17.	Loans and advances to other clients	(1,226)	(995)
18.	Securities and other financial instruments at fair value through other comprehensive income	213	170
19.	Securities and other financial instruments held for trading	10	1
20.	Securities and other financial instruments at fair value through statement of profit or loss, not traded	1	1
21.	Securities and other financial instruments mandatorily at fair value through statement of profit or loss	-	-
22.	Securities and other financial instruments at amortised cost	(676)	(497)
23.	Other assets from operating activities	(7)	1
24.	Deposits from financial institutions	26	(14)
25.	Transaction accounts of other clients	1,838	(571)
26.	Savings deposits of other clients	321	39
27.	Time deposits of other clients	(91)	548
28.	Derivative financial liabilities and other liabilities held for trading	15	(3)
29.	Other liabilities from operating activities	518	(476)
30.	Interest received from operating activities [indirect method]	252	418
31.	Dividends received from operating activities [indirect method]	-	-
32.	Interest paid from operating activities [indirect method]	(25)	(81)
33.	(Income tax paid)	(26)	(60)
34.	**Net cash flow from operating activities (from 1 to 33)**	**1,565**	**(992)**
	Investing activities		
35.	Cash receipts from the sale / payments for the purchase of tangible and intangible assets	(16)	(16)
36.	Cash receipts from the sale / payments for the purchase of investments in branches, associates and joint ventures	-	-
37.	Cash receipts from the sale / payments for the purchase of securities and other financial instruments held to maturity	-	-
38.	Dividends received from investing activities	-	7
39.	Other receipts/payments from investing activities	-	-
40.	**Net cash flow from investing activities (from 35 to 39)**	**(16)**	**(9)**
	Financing activities	**0**	**-**
41.	Net increase/(decrease) in loans received from financing activities	-	-
42.	Net increase/(decrease) in debt securities issued	-	-
43.	Net increase/(decrease) in Tier 2 capital instruments	-	-
44.	Increase in share capital	-	-
45.	(Dividends paid)	(70)	(78)
46.	Other receipts/(payments) from financing activities	(4)	(4)
47.	**Net cash flow from financing activities (from 41 to 46)**	**(74)**	**(82)**
48.	**Net increase/(decrease) of cash and cash equivalents (34 + 40 + 47)**	**1,475**	**(1,083)**
49.	**Cash and cash equivalents at the beginning of period**	**1,794**	**3,269**
50.	Effect of exchange rate fluctuations on cash and cash equivalents	-	-
51.	**Cash and cash equivalents at the end of period (48 + 49 + 50)**	**3,269**	**2,186**

	Off balance sheet items		GROUP
		2022	2023
1.	Guarantees	691	846
2.	Letters of credit	31	22
3.	Bills of exchange	-	-
4.	Undrawn loans and loan commitments	1,161	1,099
5.	Other risk off balance items	10	36
6.	Futures	-	-
7.	Options	-	-
8.	Swaps	473	1,073
9.	Forwards	236	60
10.	Other derivatives	-	-

	Off balance sheet items		BANK
		2022	2023
1.	Guarantees	633	780
2.	Letters of credit	31	22
3.	Bills of exchange	-	-
4.	Undrawn loans and loan commitments	985	943
5.	Other risk off balance items	10	36
6.	Futures	-	-
7.	Options	-	-
8.	Swaps	473	1,073
9.	Forwards	236	60
10.	Other derivatives	-	-

					GROUP
Annual report (AR)	in EUR million	Statement of financial position (CNB)	in EUR million	Diff.	Explanation
Cash and cash balances	2,355	Cash, cash balances at central banks and other demand deposits	2,355	-	-
Financial assets held for trading	23	Financial assets held for trading	23	-	-
Non-trading financial assets at fair value through profit or loss – Equity instruments	1	Non-trading financial assets at fair value through profit or loss- Equity instruments	4	(3)	AR – Non-trading financial assets at fair value through profit or loss- Debt securities
Non-trading financial assets at fair value through profit or loss – Debt securities	6	Non-trading financial assets at fair value through profit or loss- Debt securities	3	3	CNB- Equity instruments
Financial assets at fair value through other comprehensive income	1,093	Financial assets at fair value through other comprehensive income	1,093	-	-
Financial assets at amortised cost – Loans and advances	8,554	Financial assets at amortised cost- Loans and advances	9,207	-	-
Trade and other receivables	170				
Finance lease receivables	483				
Financial assets at amortised cost – Debt securities	1,803	Financial assets at amortised cost- Debt securities	1,803	-	-
Investments in subsidiaries	-	Investments in associates, subsidiaries and joint ventures	9	-	-
Investments in associates	9				
Property and equipment	161	Tangible assets	163	-	-
Investment property	2				
Intangible assets	19	Intangible assets	19	-	-
Deferred tax assets	43	Tax assets	43	-	-
Other assets	30	Other assets	30	-	-
Assets held for sale	-	Non-current assets and disposal groups classified as held for sale	-	-	-
TOTAL ASSETS	**14,752**	**TOTAL ASSETS**	**14,752**	-	-

					GROUP
Annual report (AR)	in EUR million	Statement of financial position (CNB)	in EUR million	Diff.	Explanation
Financial liabilities held for trading- Derivatives	21	Financial liabilities held for trading- Derivatives	21	-	-
Financial liabilities measured at amortised cost- Deposits	12,166	Financial liabilities measured at amortised cost- Deposits	12,166	-	-
Debt securities in issue	537	Debt securities in issue	537	-	-
Other financial liabilities	138	Other financial liabilities	152	-	-
Lease liabilities	14				
Provisions	75	Provisions	75	-	-
Tax liabilities	18	Tax liabilities	18	-	-
Other liabilities	108	Other liabilities	108	-	-
Total equity	1,675	Total equity	1,675	-	-
TOTAL LIABILITIES AND EQUITY	**14,752**	**TOTAL LIABILITIES AND EQUITY**	**14,752**	**-**	**-**

					GROUP
Annual report (AR)	**in EUR million**	**Income statement (CNB)**	**in EUR million**	**Diff.**	**Explanation**
Interest income	462				
Other similar income	51	Interest income	513	- -	
Interest expense	(75)				
Other similar expense	(28)	Interest expense	(103)	- -	
Fee and commission income	171	Fees and commissions income	171	- -	
Fee and commission expense	(46)	Fees and commissions expenses	(46)	- -	
Net trading result	15	Gains or losses on financial assets and financial liabilities held for trading, net	15	- -	
		Exchange differences [gain or loss], net	-		
Personnel expenses	(128)	Administrative expenses	(224)		
Other administrative expenses	(105)	Depreciation	(31)		
Depreciation and amortisation	(31)	Cash contributions to resolution boards and deposit guarantee schemes	(9)	-	
Other operating result	(22)	Gains or losses from derecognition of non-financial assets, net	2		
Rental income from investment properties & other operating leases	7	Other operating income	9		
Net impairment loss on financial instruments	46	Other operating expense	(11)		
Gains/losses from derecognition of financial assets measured at amortised cost	-	Provisions or cancellation of provisions	(29)	-	
		Impairment or reversal of impairment on financial assets not measured at FVPL	60		
		Profit or (-) loss from fixed assets and disposal groups classified as held for sale not qualifying as discontinued operations	1		
		Modification gains or (-) losses, net	(1)		
		Impairment of non-financial assets	-		
Net result from equity method investments	1	Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	1	- -	
Dividend income	-	Dividend income	-	- -	
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	(21)	Gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	(21)	- -	
Gains/losses from financial instruments measured at fair value through profit or loss	1	Gains/losses from financial instruments measured at fair value through profit or loss	1	- -	
Pre-tax profit from continuing operations	**298**	**PRE-TAX PROFIT**	**298**	**- -**	
Income tax	(53)	Taxes on income	(53)	- -	
NET PROFIT OF THE YEAR	**245**	**NET PROFIT FOR THE PERIOD**	**245**	**- -**	

Appendix 2 – Differences between financial statements according to IFRS and local requirements
Year ended 31 December 2023

BANK

Annual report (AR)	in EUR million	Statement of financial position (CNB)	in EUR million	Diff.	Explanation
Cash and cash balances	2,186	Cash, cash balances at central banks and other demand deposits	2,186	-	-
Financial assets held for trading	23	Financial assets held for trading	23	-	-
Non-trading financial assets at fair value through profit or loss – Equity instruments	1	Non-trading financial assets at fair value through profit or loss- Equity instruments	4	(3)	AR – Non-trading financial assets at fair value through profit or loss- Debt securities
Non-trading financial assets at fair value through profit or loss – Debt securities	6	Non-trading financial assets at fair value through profit or loss- Debt securities	3	3	CNB – Equity instruments
Financial assets at fair value through other comprehensive income	1,039	Financial assets at fair value through other comprehensive income	1,039	-	-
Financial assets at amortised cost – Loans and advances	7,863	Financial assets at amortised cost- Loans and advances	7,972	-	-
Trade and other receivables	109				
Financial assets at amortised cost – Debt securities	1,757	Financial assets at amortised cost- Debt securities	1,757	-	-
Investments in subsidiaries	91	Investments in associates, subsidiaries and joint ventures	96	-	-
Investments in associates	5				
Property and equipment	113	Tangible assets	113	-	-
Investment property	-				
Intangible assets	13	Intangible assets	13	-	-
Deferred tax assets	33	Tax assets	33	-	-
Other assets	18	Other assets	18	-	-
TOTAL ASSETS	**13,257**	**TOTAL ASSETS**	**13,257**	**-**	**-**

BANK

Annual report (AR)	in EUR million	Statement of financial position (CNB)	in EUR million	Diff.	Explanation
Financial liabilities held for trading- Derivatives	21	Financial liabilities held for trading- Derivatives	21	-	-
Financial liabilities measured at amortised cost- Deposits	11,089	Financial liabilities measured at amortised cost- Deposits	11,089	-	-
Debt securities in issue	537	Debt securities in issue	537	-	-
Other financial liabilities	52				
Lease liabilities	15	Other financial liabilities	67	-	-
Provisions	71	Provisions	71	-	-
Tax liabilities	16	Tax liabilities	16	-	-
Other liabilities	77	Other liabilities	77	-	-
Total equity	1,379	Total equity	1,379	-	-
TOTAL LIABILITIES AND EQUITY	**13,257**	**TOTAL LIABILITIES AND EQUITY**	**13,257**	**-**	**-**

					BANK
Annual report (AR)	**in EUR million**	**Income statement (CNB)**	**in EUR million**	**Diff.**	**Explanation**
Interest income	413				
Other similar income	28	Interest income	441	- -	
Interest expense	(60)				
Other similar expense	(28)	Interest expense	(88)	- -	
Fee and commission income	125	Fees and commissions income	125	- -	
Fee and commission expense	(38)	Fees and commissions expenses	(38)	- -	
Net trading result	14	Gains or losses on financial assets and financial liabilities held for trading, net	14	- -	
		Exchange differences [gain or loss], net	-		
Personnel expenses	(100)	Administrative expenses	(179)	-	
Other administrative expenses	(86)	Depreciation	(19)		
Depreciation and amortisation	(19)	Cash contributions to resolution boards and deposit guarantee schemes	(7)	-	
Other operating result	(14)	Gains or losses from derecognition of non-financial assets, net	1		
Rental income from investment properties & other operating leases	-	Other operating income	4		
Net impairment loss on financial instruments	43	Other operating expense	(4)	-	
Gains/losses from derecognition of financial assets measured at amortised cost	-	Provisions or cancellation of provisions	(28)		
		Impairment or reversal of impairment on financial assets not measured at FVPL	56		
		I Modification gains or (-) losses, net	-		
		(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	-		
		Profit or (-) loss from fixed assets and disposal groups classified as held for sale not qualifying as discontinued operations			
		Impairment of non-financial assets	-		
Dividend income	8	Dividend income	8	- -	
Other gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	(21)	Gains/losses from derecognition of financial instruments not measured at fair value through profit or loss	(21)	- -	
Gains/losses from financial instruments measured at fair value through profit or loss	1	Gains/losses from financial instruments measured at fair value through profit or loss	1	- -	
Pre-tax profit from continuing operations	**266**	**P R E – T A X P R O F I T**	**266**	**- -**	
Income tax	(47)	Taxes on income	(47)	- -	
NET PROFIT OF THE YEAR	**219**	**NET PROFIT FOR THE PERIOD**	**219**	**- -**	