J&T banka d.d.

Annual report for the year 2023

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J&T BANKA

Contents

Introduction

The annual report comprises a summary of operation and key financial indicators, a description of operation and the audited financial statements for the year ended 31 December 2023 together with the Independent Auditor's Report.

Legal status

The Annual Report includes annual financial statements prepared in accordance with International financial reporting standards, and audited in accordance with International Standards on Auditing.

The Annual Report has been prepared in accordance with the Accounting Act and Companies Act which requires the Management Board of an entity to report to shareholders at their annual General Assembly.

Abbreviations

In the Annual Report, J&T banka d.d. is referred to as 'the Bank' or 'J&T', the Croatian National Bank as 'CNB', the Republic of Croatia as 'the Government' and the Croatian Bank for Reconstruction and Development as 'CBRD'. Other abbreviations may be used in report are:

F/Ss - financial statements

SFP - statement of financial position

SPL - statement of profit and loss

OCI - other comprehensive income

CC – currency clause

GDP – gross domestic product

IAS – International accounting standards

IFRS - International Financial Reporting Standards

In this report, the abbreviations "EUR thousand" and "EUR million" represent thousands and millions of euros.

Exchange rates

The following CNB middle exchange rates were used for translation of foreign currencies into euro:

31 December 2023	1 EUR = 7,534500 HRK	1 EUR = 1,105000 USD
31 December 2022	1 EUR = 7,534500 HRK	1 USD = 7,064035 HRK

Macroeconomic environment and banking sector in the Republic of Croatia in 2023

Changes in global environment

Global economic activity in 2023 proved to be more resilient than expected, but signs of a gradual slowdown are becoming more visible. Stronger than expected economic activity was recorded by most large economies. Thanks to the strong labor market and resilient consumer spending, especially in the services segment, economic activity remained relatively strong in most large economies during the current year. Thus, despite problems in the real estate sector and weak investment activity, the Chinese economy grew in the third quarter of 2023 by 1.3% compared to the previous three months.

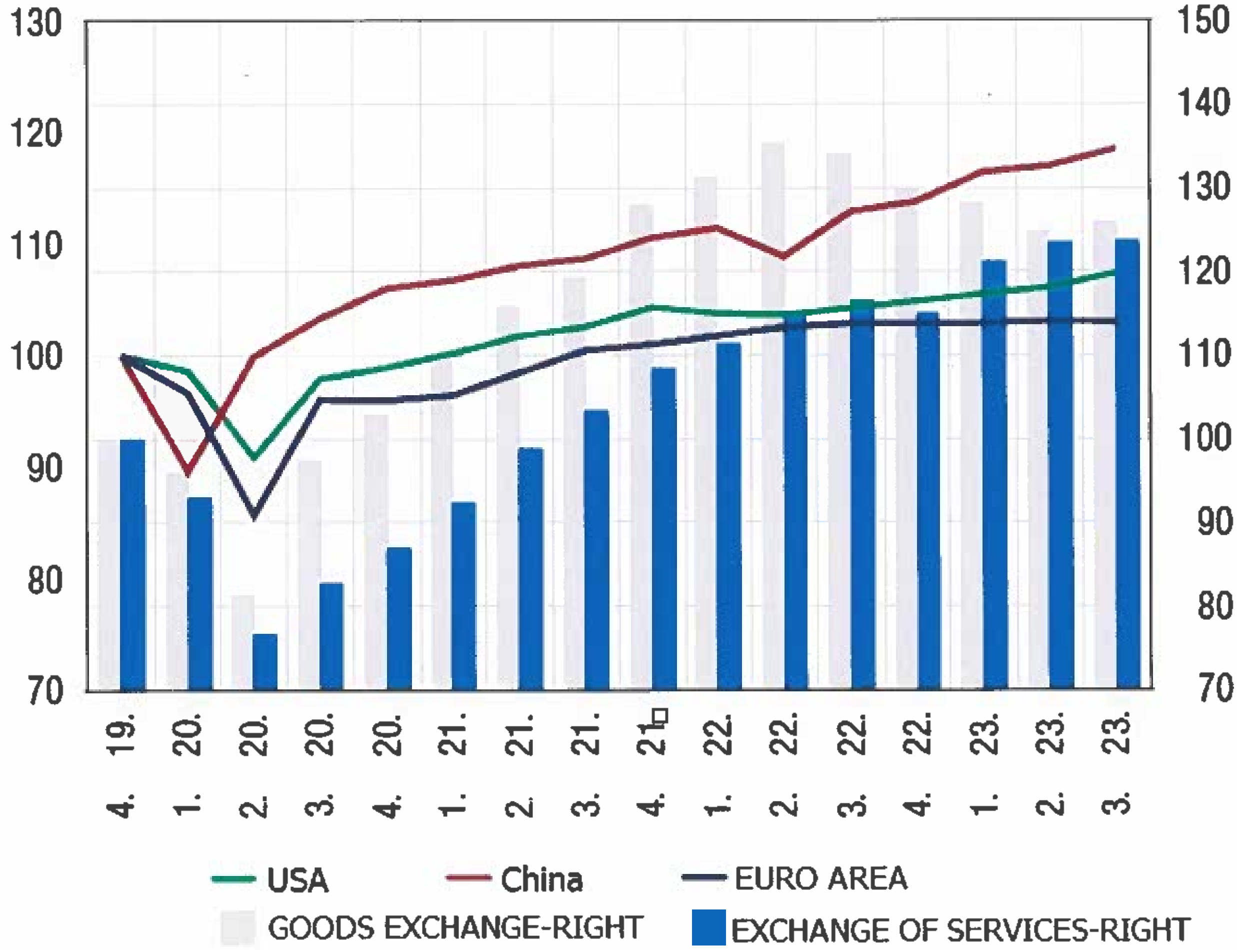
In the same period, the US economy, despite tightened financing conditions, also recorded very intense growth (1.2% in the third quarter of 2023), thanks to strong investment activity and consumer optimism that reflects a still very strong labor market. Nevertheless, at the beginning of the fourth quarter, there were noticeable signs of weakening in the labor market, which began to be reflected in consumer optimism and overall economic activity. At the same time, global price pressures are easing faster than expected, but remain pronounced, with uncertainty related to the recent rise in oil prices and growing labor market pressures, especially in developed countries.

From the beginning of 2023, real economic activity in the euro area has mostly stagnated. In the last quarter of 2023, it stagnated compared to the previous three months, after a very slight contraction during the summer months (–0.1%). This is already the fifth consecutive quarter of stagnation, that is, quarterly changes in economic activity in a narrow range of ±0.1%. In addition, considerable differences are still noticeable between member countries, from a noticeable drop in real GDP in Germany to a pronounced growth in Spain.

Thus, after modest achievements in the first half of the year, a slight contraction of economic activity was recorded during the summer months. The industrial sector, especially energy-intensive activities, is under the pressure of increased energy prices since the Russian invasion of Ukraine, then the weakening of foreign demand, which is particularly visible in the export results to China, as well as the structural weaknesses of traditional European industries such as the automobile industry. In recent months, the weakness in the construction industry has become increasingly visible. Such results of the euro area economy are mainly the result of worsening trends in industry and the construction sector. However, this has not yet had a more noticeable impact on the labor market, which is still very strong with widespread labor shortages and marked growth in nominal wages.

Most of the current projections for the last quarter point to a continuation of the trend of stagnation or a very slight decline in economic activity. At the same time, the dynamics of real activity is not geographically uniform, and among the larger economies Germany, Italy and the Netherlands stand out with unfavorable trends, while Spain, Belgium and France still record positive annual growth rates. When it comes to smaller member states, Croatia and Greece stand out with growth, while unfavorable trends are quite pronounced in the Baltic countries, especially Estonia.

Graph 1: Economic activity in selected markets and global trade



Source: Eurostat; BEA; NBS; UNCTAD

Changes in Croatia

Economic activity

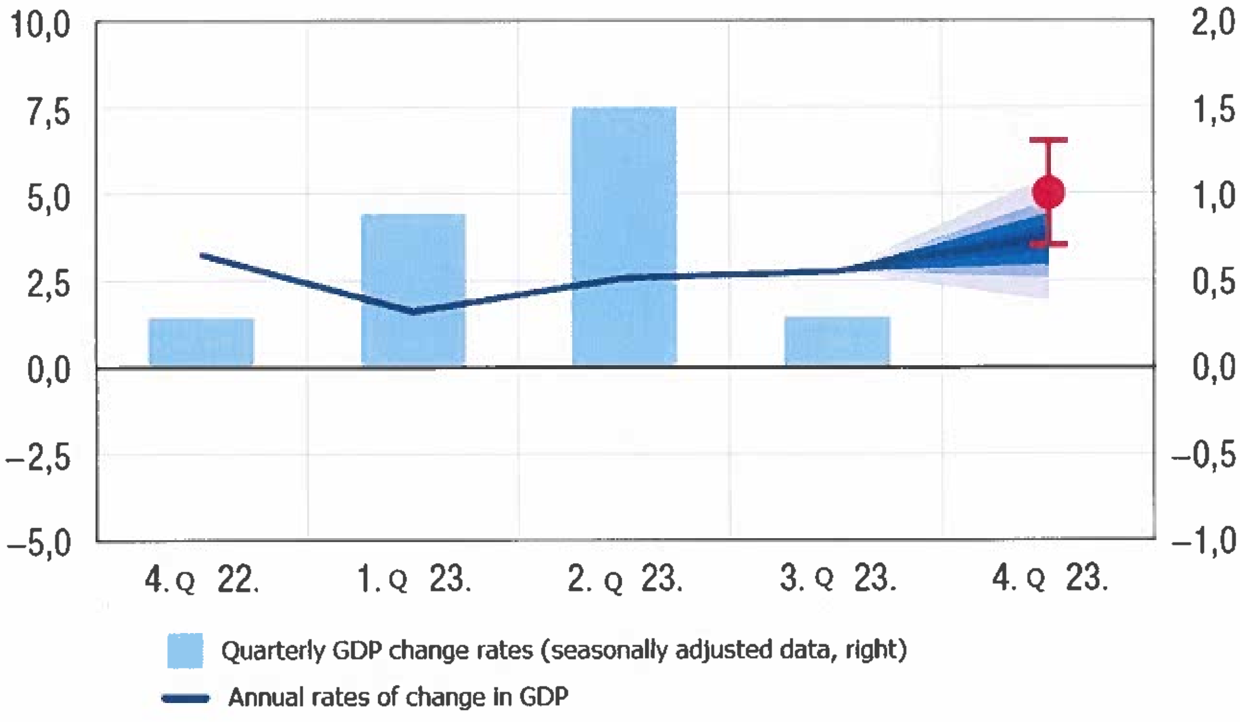
The Croatian economy has so far proven to be relatively resistant to foreign shocks and tighter financing conditions, and economic expansion is expected to continue in the medium term. After the continuous strengthening of economic growth since the end of last year, in the third quarter of 2023, the growth of Croatia's real GDP slowed down significantly at the quarterly level. According to the available monthly data, stronger growth in economic activity was expected in the last quarter. The slowdown in economic growth in the middle of the year mainly reflects the weakening of foreign demand, while domestic demand remained relatively robust.

Personal consumption contributed the most to the growth of economic activity in 2023, which can be linked to the strengthening of the growth of real disposable incomes. Such developments are mainly the result of a still strong labor market, characterized by continued growth in the number of employees and a strong growth in nominal wages, which in the conditions of slowing inflation resulted in a relatively strong growth in real wages. At the same time, movements in the public sector made a significant positive contribution to the increase in total wages, but the dynamic growth of wages in the private sector also continued. Despite relatively strong personal consumption, the savings rate also continued to grow and approached the long-term average.

Investments contributed to favorable economic developments, while, on the other hand, the decline in total exports accelerated further. It seems that the continued growth of investment activity is still mainly influenced by the high level of public investments, while the decline in the import of capital products indicates that private investments, after the decrease in the first half of the year, are still muted. The weakness of private investments is also influenced by the gradual deterioration of financing conditions. Total exports continued to contract after a noticeable decrease in the first half of the year. At the same time, the export of goods continued to decrease for the fourth quarter in a row, although the slowdown of the negative trend is noticeable. As a reflection of the lower level of overnight stays by foreign tourists on an annual level during the peak of the tourist season, the export of services also decreased, both on a quarterly and annual level. Despite the decline in exports, the contribution of net foreign demand at the annual level was highly positive, considering that at the same time the import of goods and services was significantly reduced.

Unfavorable trends in foreign demand had a negative impact on certain economic activities in Croatia. Thus, the decline in gross added value in the processing industry and certain activities related to tourism is visible. Also, a high negative contribution from financial activities is visible. On the other hand, there is a noticeable high growth in activities that are mostly based on domestic demand, such as agriculture, construction, IT and real estate business.

Graph 2: Quarterly GDP



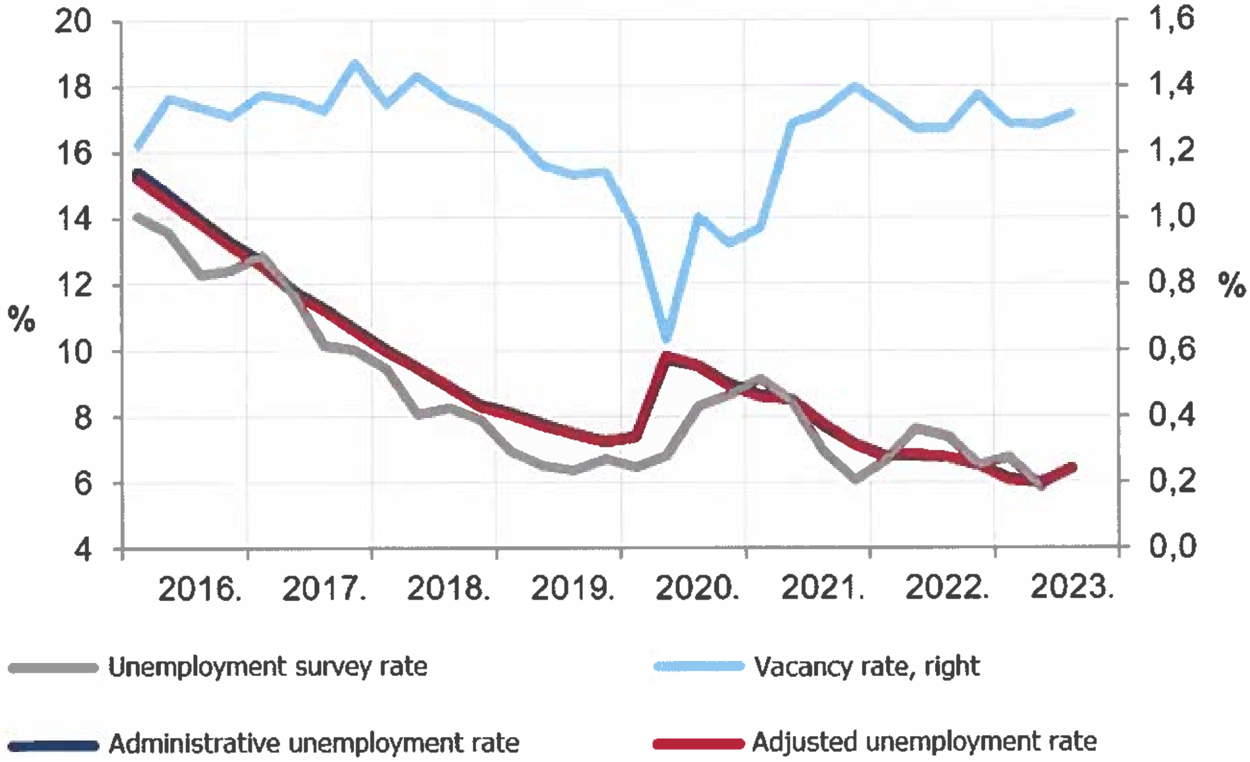
Source: DZS (seasonal adjustment of CNB); CNB calculation

Labor market

Robust domestic economic activity contributed to the continued increase in the number of employed persons in the third quarter, albeit at a slightly lower intensity compared to the first half of the year. Thus, total employment in the period from July to September increased by 0.4% compared to the second quarter. The strongest contribution to overall employment growth was made by employment in the IT sector, construction and service activities related to tourism, while the number of employees in industry stagnated, and a decline in employment was recorded in the public sector. Observed on an annual basis, the number of employees in the third quarter was 2.5% higher than in the same period of 2022. Data for October point to the continuation of employment growth at a similar intensity as in the previous quarter. At the same time, part of the demand for work is still satisfied by the increased employment of workers from third countries (outside the European Union) and by the hiring of pensioners who work up to half the working time. The increase in the participation rate in the age group from 15 to 64 years, that is, the activation of the previously inactive workforce, achieved in the conditions of a tight labor market, points to an additional source of employment growth.

The growth in employment was partially reflected in the decrease in the unemployment rate, while the strong demand for work is also indicated by the continued high value of the vacancy rate. The rates of job vacancies were mostly stable, except in the accommodation and hospitality industry with pronounced employment of workers from third countries. In addition to accommodation and catering, the strong growth in the employment of foreign workers is also recorded in the construction industry, which reflects a more pronounced shortage of labor in these industries, and partly the nature of the work and the necessary qualifications. The unemployment rate was relatively stable in conditions of growth in the labor force participation rate as well as increased employment of workers from third countries and retired persons. After the marked growth of nominal and real wages at the beginning of 2023, their current growth slowed down in the rest of the year.

Graph 3: Unemployment rate



Source: DZS; HZZ; calculation CNB (seasonal adjustment CNB calculation)

Inflation

The prices of goods and services for personal consumption, measured by the consumer price index (CPI), fell by 0.5% in December 2023 compared to November. Compared to December 2022, 4.5% more. Inflation in 2023 at the level of the whole year averaged 8.0% (State Statistical Office). Measured by the harmonized index of consumer prices (HICP), prices in December were 0.3% lower than in November, while compared to December 2022 they were 5.4% higher. Inflation in 2023 at the level of the whole year reached 8.4%.

Observed according to the main classification groups at the annual level, measured (by the IPC), the highest price increase on average was achieved in the Restaurants and hotels groups, by 12.4%, while food and non-alcoholic beverages rose in price by 6.7%. The prices of clothing and footwear are higher by 5.7% compared to 2022, education by 5.4%, while the costs of transportation jumped by 3.0%, and communications by 2.2%.

According to the main components of the index (special aggregates), at the annual level, price increases were recorded in the food, beverage and tobacco components and services - each by 6.3%. Industrial non-food products without energy followed with a growth of 3.9%, while energy prices fell by 0.6%.

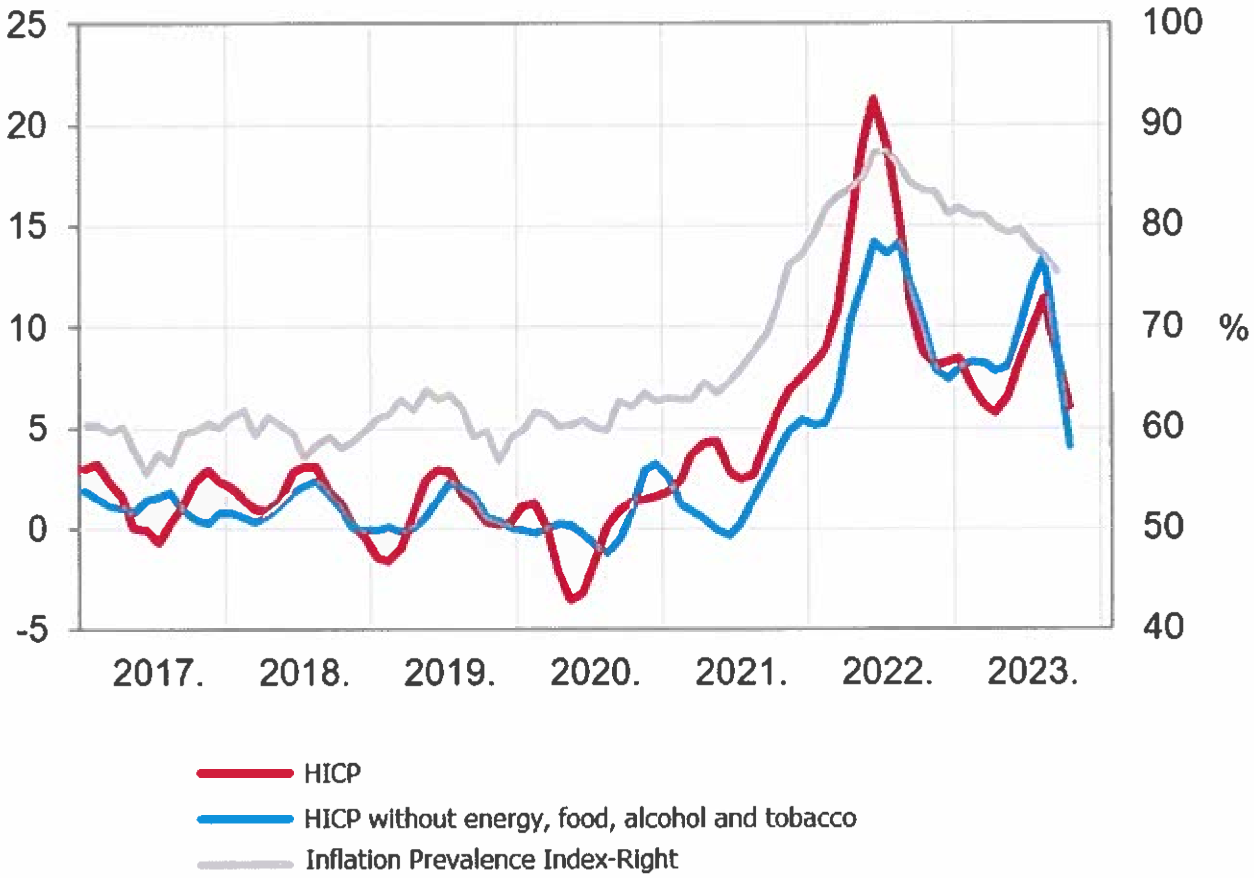
In December, the prices of food, beverages, tobacco and services increased by 0.1% compared to November. In the same period, energy prices fell by 1.7%, and industrial non-food products without energy by 1.2%.

Annual inflation in the Eurozone accelerated to 2.9% in December from 2.4% in November, according to preliminary data published by Eurostat on January 5. Slovakia again had the highest estimated annual inflation rate of 6.6%, followed by Austria with 5.7% and Croatia with 5.4%.

According to forecasts for 2024, a significant slowdown in the growth of consumer prices in Croatia is expected. Most analysts predict that inflation will be cut in half, the numbers vary, but the average value could be around 3.5%.

At the same time, the annual rates of price inflation of all main sub-components, especially food and core inflation, should be reduced, under the influence of the continued spillover of lower prices of energy and other raw materials on the prices of goods and services.

Graph 4: Indicators of current inflation trends



Source: Eurostat; calculation CNB

Graph 5: Average annual inflation rate

Source: DZS

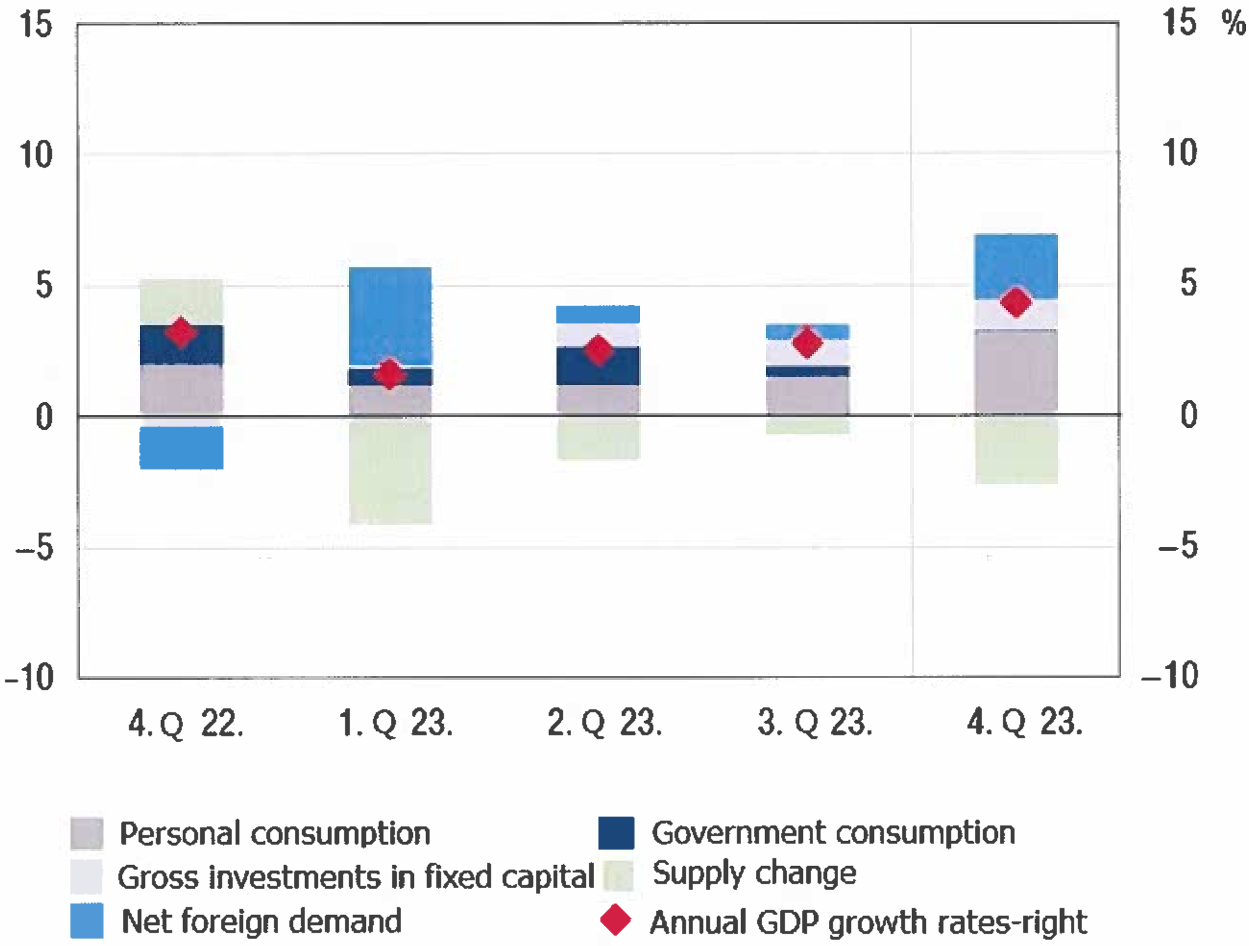
Personal consumption

The growth of economic activity in the third quarter of 2023, increased by 0.3% in the third quarter of 2023 after stagnation in the first half of the year, was mainly contributed by personal consumption, which can be connected to the strengthening of the growth of real disposable incomes, while government spending made a positive contribution to GDP growth, albeit to a lesser extent.

Such developments are mainly the result of a still strong labor market, characterized by continued growth in the number of employees and a strong growth in nominal wages, which in the conditions of slowing inflation resulted in a relatively strong growth in real wages. At the same time, movements in the public sector made a significant positive contribution to the increase in total wages, but the dynamic growth of wages in the private sector also continued. Despite relatively strong personal consumption, the savings rate also continued to grow and approached the long-term average.

Predictions are that personal consumption will remain the driving force behind the growth of economic activity during 2024, when growth of 2.5% is expected. The largest component of GDP is supported by the continuation of solid trends in the labor market and moderately positive expectations in tourism. Expectations are supported by the improvement of consumer optimism with the gradual further easing of inflationary pressures, which will keep real wage growth around current levels. In addition, government spending is expected to continue to grow. Although with somewhat slower dynamics, positive annual changes are also likely in public investments, which largely rely on generous funds from various European funds and programs.

Graph 6: Contribution to annual growth of GDP in Croatia



Source: DZS; CNB Bulletin

Terms of financing and banking sector

In 2023, the total assets of credit institutions increased by 3.5% compared to the end of 2022 and amounted to 78.6 billion. euros. Assets increased at most credit institutions. In 2023, the number of credit institutions decreased to 20 due to the merger of Nova Hrvatska bank d.d. Croatian postal bank d.d. in July 2023.

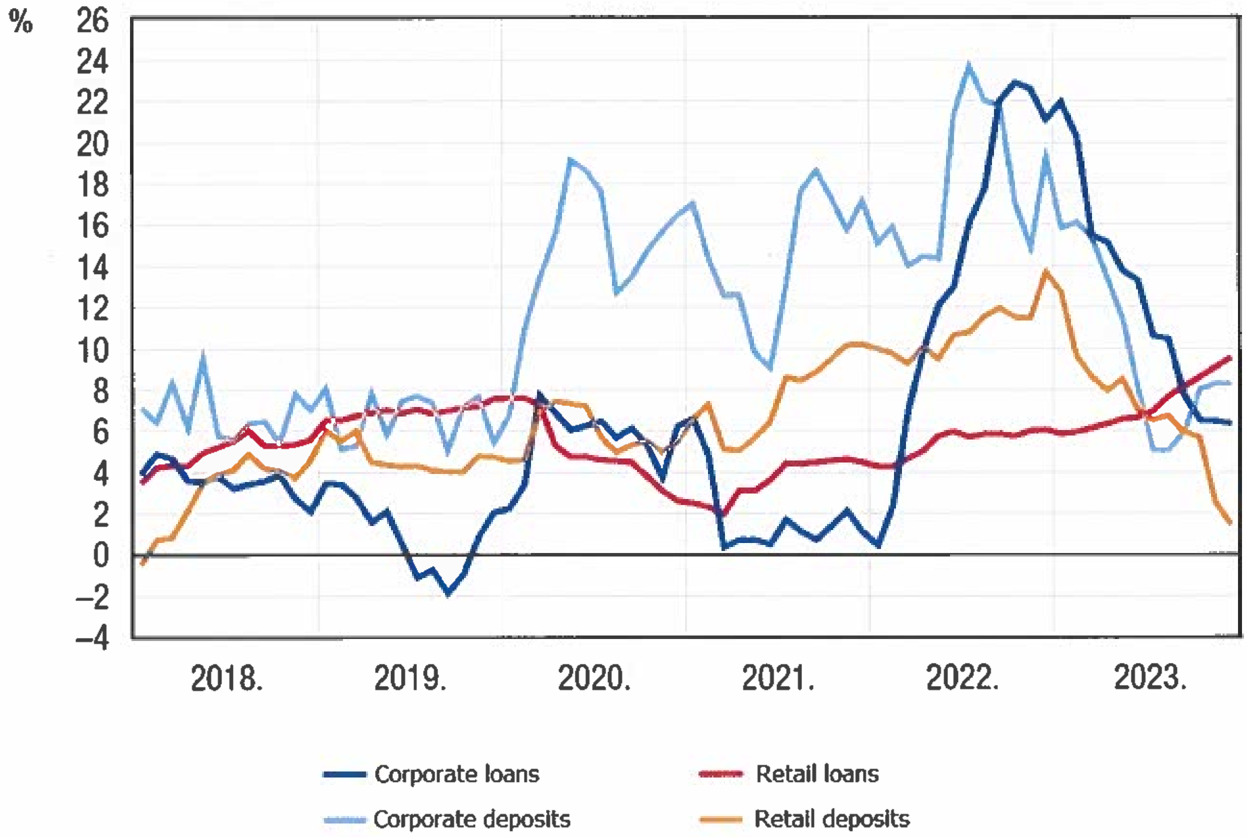
Total loans and advances increased by 2.0% compared to the end of 2022, and non-performing loans and advances (hereinafter: NPLs) decreased by 11.4%. Such a trend was achieved in both the most important sectors (households and non-financial companies), whereby loans to households contributed the most to the growth of total loans, while NPLs decreased the most in the portfolio of loans to non-financial companies.

Consequently, the share of NPLs in total loans and advances at the end of 2023 fell from 3.0% to 2.6%, thus continuing the multi-year downward trend of this indicator. In the portfolio of loans to non-financial companies, the share of NPLs decreased from 6.4% to 5.1%, and in the portfolio of loans to households, it decreased from 5.0% to 4.2% of loans to that sector.

The operations of credit institutions in 2023 resulted in a profit in the amount of 1.4 billion. euros. Profitability indicators increased compared to their value at the end of 2022. Return on assets (ROA) increased from 1.0% to 1.8% and return on equity (ROE) increased from 8.2% to 15.5%. This is the result of an increase in the current year's profit, under the influence of a strong increase in interest income. A significant contribution to the growth of these revenues was also made by revenues from overnight deposits with the CNB.

Key indicators of the capitalization of the banking system are at high levels, and the rate of total capital of the banking system decreased slightly to 23.6% under the influence of the reduction of total capital and increased exposure to risks. All credit institutions had a total capital ratio higher than the prescribed minimum of 8%.

The liquidity of the system of credit institutions is still at a very high level, measured by the liquidity coverage ratio (LCR). At the end of 2023, all credit institutions met the prescribed minimum liquidity requirements, and the average LCR was 238.1%.
Graph 7: Loans and deposits of corporate and retail annual rate of change, based on transaction



Source: CNB Bulletin

Monetary policy

On the first day of 2023, Croatia became a member of the euro area after entering the European exchange rate mechanism (ERM II) in mid-2020. Croatia's risk premium decreased already in mid-2022, when the EU Council made a decision on the introduction of the euro, which was confirmed by the three credit rating agencies, which increased Croatia's rating by one level during July 2022.
The introduction of the euro almost completely removed the currency risk, and the direct effect of the introduction of the euro on inflation was minimal. The character of the monetary policy of the CNB in the period immediately before the introduction of the new currency was characterized by preparations for the new monetary framework, which largely amortized the pressures of external shocks on the domestic financial market. At the same time, the adjustment of the CNB's monetary policy instruments resulted in the highest level of liquidity in the banking system so far, which softened the transmission of stricter financing conditions triggered by the normalization of the ECB's monetary policy.

The increase in the key interest rates of the ECB was almost completely passed on to the increase in interest rates on the money market. In the first half of 2023, the transmission of the increase in key ECB interest rates on the unsecured segment of the money market was immediate and complete, while on the secured segment, the transmission was strong, but not complete, and there was heterogeneity between countries. The cycle of raising interest rates in the euro area began in July 2022 and ended in September 2023. In that period, the reference interest rates of the ECB were raised by 450 basis points, and currently the most important interest rate is that on deposits (from surplus liquidity) of banks at the central bank increased from -0.5% to 4.0%. EURIBOR, as a reference interest rate for the money market and loans, moved in a similar range until at the end of the year there were stronger expectations on the market that a reduction in interest rates would follow in 2024, and according to market expectations in the second quarter. On the one hand, this caused an adjustment of interest rates on loans, on the other hand, but somewhat more slowly, on deposits.

The interest rate channel of monetary policy transmission in Croatia was slightly less pronounced than in other countries for several reasons: the high liquidity of the banking system, which was greatly increased after the conversion of the kuna to the euro upon joining the euro area, great competition between banks, a greater share of fixed interest rates on loans in Croatia, especially for households, and also the existing regulation of adjustment of interest rates in dealings with households.

Yields on the bond market have been stable since the beginning of the year. The cost of borrowing for businesses and households continued to rise, reflecting the pronounced intensity of the ECB interest rate hike, while credit activity remained muted.

The current cycle of monetary policy tightening in the euro area is the strongest since the introduction of the euro as a currency. Eurozone banks have proven to be resilient, have high capital ratios and have significantly increased profitability over the past year.

Graph 8: Exchange rates of selected currencies against the euro and the nominal effective exchange rate of the euro

Note: INET-41 is an index of the nominal effective exchange rate of the euro according to the 41 most important trading partners of the euro area. The growth of the exchange rate indicates the appreciation of the euro.

Source: ESB

Management report

J&T banka d.d. is registered as joint-stock company at the Commercial Court in Varaždin under registration number (MBS): 50000185, with its registered office in Varaždin, Međimurska ulica 28, for the performance of the following activities:

- accepting deposits or other repayable funds from people and approving credits from those funds, for own account;
- accepting deposits and other repayable funds;
- approval of loans and credits, including consumer credits and loans, and mortgage credits and loans, if it is allowed by a special law, and financing commercial activities, including export financing based on discount repurchase and without reimbursement of long-term unmatured claims ensured by financial instruments (forfeiting);
- purchase of receivables with or without recourse (factoring);
- finance lease;
- issuing guarantees and other warrants;
- trading for own account or for the client's account:
    - money market instruments,
    - transferable securities,
    - foreign currencies, including exchange transactions,
    - financial futures and options,
    - currency and interest rate instruments,
- payment services in line with special laws;
- services related to crediting, e.g. collection of data, conducting analyses and providing information on creditworthiness of legal and natural persons who conduct business activities on their own;
- issuing other payment instruments and managing them, in line with a special law, unless provision of these services is not considered provision of payment services in line with special laws;
- renting safe boxes;
- mediation in money market transactions;
- investments and other services and activities in accordance with separate laws regulating capital markets, as follows:
    - trading for own account.

As at 31 December 2023, the Bank operates through 2 branches (Varaždin, Zagreb).

The Bank performs most of its business activities in the territory of the Republic of Croatia while only a small part of its business is carried out with non-residents.

Total revenue for the Bank in 2023 amounted to EUR 4,200 thousand.

The Bank employs 52 full- time workers.

Loss in 2023 amounted to EUR 1,540 thousand. The Bank did not have any obligation to pay taxes on profits.

In 2023, the Bank did not receive public subsidies.

MISSION

Our individual approach to each client and our top quality and professional services, based on the competencies of our employees, creates added value for our clients. This contributes to the growth of our organization and the improvement of the quality of life of our community. We appreciate the personal contribution of all of our employees whose creativity and knowledge are our greatest values.

VISION

Our vision is to continuously exceed expectations and be the first to innovate and create new values. We want to be a leader in creating world-class financial solutions for our customers and be the best in providing growth and development opportunities to all our employees.

Financial performance

Bank operations in 2023 were marked by continuing business strategies and putting the focus on larger corporate clients. Total share capital amounts to 43,411,690 EUR and the ownership share of J&T Bank a.s. Prague is 98.20%.

In 2023 Bank generated EUR 3.6 million of interest income, while interest expenses amounted to EUR 0.5 million. Net interest income amounted to EUR 3.0 million, which is increase compared to 2022 by EUR 1.2 million. Part of the reason for the mentioned increase in interest income is growth of EURIBOR as well as the collection of income from non-profitable placements.

Portfolio of loans and advances to customers on 31 December 2023 amounted EUR 30.7 million and 31 December 2022 amounted to EUR 37.6 million.

Securities portfolio at 31 December 2023 amounted to EUR 14.4 million and was EUR 1.4 million lower than the end of the previous year.

Net fee and commission income in 2023 amounted to EUR 0.3 million (in 2022. EUR 0.6 million).

Administrative costs and depreciation amounted to EUR 2.0 million, EUR 0.4 million higher compared with the previous year as a result of the growth assets in use (leases) and auditors expenses.

The bank records impairment and provisions in the net amount of EUR 1.4 million, while the previous year the impairment and provisions amounted to a net amount of EUR 2.0 million. The realized loss of the current year after value adjustment amounts to EUR 1.54 million (the same period last year the realized losst was EUR 2.31 million).

The most significant share of the funding structure of the Bank comprise term deposits which amounted to EUR 38.3 million at 31 December 2023 and comprise 51,16% of total sources of funding, while the share capital and reserves of the Bank as at 31 December 2023 amounts to EUR 12.3 million and comprise 16,38% of total sources of funding.

As at 31 December 2022 the Bank's total assets amounted to EUR 74.9 million (EUR 88.2 million at 31 December 2022).

Impact of economic environment (war in Ukraine)

The invasion of Ukraine by the Russian Federation, and the consequent adoption of international sanctions against the Russian Federation and The Republic of Belarus, represented a significant event that has affected the Bank's risk management, as well as general corporate governance in all related areas. Following the invasion and the adoption of international sanctions, the Bank conducted a detailed analysis of potential increased exposure to credit risk, market risks, liquidity risk, IT/cyber risks and risks related to the prevention of money laundering and terrorism financing.

Management is closely monitoring the situation and if necessary will undertake all available measures, in order to mitigate the potential adverse effects of any events or circumstances.

Retail sector

In 2023 Retail banking was performed through 2 branches on domestic market (Varaždin and Zagreb) and on German market through already terminated cooperation with Deposit Solutions (before: Savedo Gmbh).

Activities in retail were focused primarily on deposit collection segment and, in less extent, on managing the remaining portfolio of consumer loans. In 2023 gross overdue receivables of retail credit placement compared to 2022 decreased by 21% (2023 EUR 32 ths; 2022 EUR 40 ths), while the cost of gross provisions decreased by 24% (2023 EUR 44 ths: 2022 EUR 58 ths).

Bank did not approve new consumer loans during 2023, which is the continuity of non-offering (providing) new consumer lending service since 2017 and earlier. The bank has never started with housing consumer lending services, as regulated by the Act on Housing Consumer Credit (NN 101/2017).

In line with the long-lasting exit strategy in consumer lending and realized sale of performing loans the end of 2021, the retail credit portfolio in 2023 was further decreased by EUR 93 thousand or 23%.

Variable interest rates on the existing retail loans have followed a decrease of NRS (National Reference Rate - 6M NRS1) in the first half of 2023, while in the second half of the year they stagnated, all in-line with the Bank's Principles for Determining Variable Interest Rates on Retail Loans. The strategy for deposit segment was focusing on maintenance short term liquidity sources, continuity in exiting from long term sources and optimizing deposit structure and interest costs. During 2023 deposits with floating interest rates were increased once following an increase of reference parameter – Indeks referentne kamatne stope na depozite ("IRKSD"), and twice Bank decided not to decrease interest rates. During the year 2023 the Bank made a several decisions about action interest rates on term deposits. Average interest rate on citizens' deposits has been increased by 1.57 pp for deposits in Euros, while the volume of deposits decreased by EUR 6 mil. or 13%. In previous years Bank made following decisions: (i) to stop contracting new long-term retail deposits and redirecting the focus of saving operations to short-term sources in this segment and (ii) to stop automatic prolongations of existing long-term deposits when they mature. Regarding the term deposits portfolio collected through cooperation with Deposit Solutions, the average interest rate stayed the same (the end of 2023 compared to the end of 2022), while the volume of deposits also stays the same. The contract was terminated on December 31st, 2020, with residual obligation to continue managing the existing portfolio until expiration of each particular deposit.

All above changes and terminations of products and services have been performed successfully in line with all relevant and applicable internal and regulatory procedures, regulations and guidelines including informing the clients/consumers and the Croatian national bank in timely and comprehensive manner.

Corporate sector

After a year of high inflation and the war in Ukraine, the corporate banking portfolio continues to perform with confidence as the economic situation and inflation moderate. Positive business signs will be visible through operations. The corporate banking portfolio achieved a gross decrease of 14.06% compared to the previous year, where the gross decrease was 13.6%.
Also, continuous workout actions vs NPL loans shows further decrease in the NPL loans by. The vast majority of the NPL exposure concerns going concern clients that regularly repay their obligations.

Corporate	2019	2020	Δ 20/19	2021	Δ 21/20	2022	Δ 22/21	2023	Δ 23/22
Gross	**49,484**	**58,372**	*18.00%*	**48,888**	*-16.20%*	**42,224**	*-13.60%*	**36,287**	*-14.06%*
A (PL)	36,483	47,945	*31.40%*	41,741	*-12.90%*	31,321	*-25.00%*	24,383	*-22.15%*
B (NPL)	12,132	9,131	*-24.70%*	5,345	*-41.50%*	9,101	*70.30%*	10,103	*11.01%*
C (NPL)	869	1,295	*49.00%*	1,802	*39.10%*	1,802	*0.00%*	1,802	*0.00%*

In the area of Anti-money laundering and terrorist financing, the corporate banking department is continuing to conduct in-depth analyses, monitor the transactions, and report all of the suspicious and disputable transactions to responsible persons, according to the valid procedures and legislation.

The corporate banking department is already preparing several new loans in different sector & industries, with the emphasis on the project finance / real estate and investment banking loans. The amount of the loans that are in the works is significant, and will contribute to the expansion of the corporate portfolio. As the majority of the loans are syndicated and highly complex the whole process of structuring such loans is quite demanding, and it requires a lot of time, as the analysis of those loans have to be quite thorough. The realization of these new loans in the making is expected in the third quarter of 2024.

As mentioned, the significant amount of loans are syndicated so the contribution to the revenue growth is expected through approvals of those syndicated loans. Additional smaller local loans, up to EUR 2,300,000.00, are structured without the syndication with the J&T group, and will continue to bring in additional interest revenues.

The growth strategy of the portfolio in the Corporate Banking Department continues the planned volume, and the first significant results are expected in the fourth quarter of 2024.

Treasury activities

Compared to 2022, which was globally marked by the war in Ukraine, the year 2023 in the Republic of Croatia was marked by the introduction of the euro as the official currency, which consequently had a great impact on the Croatian economy, in the form of an increase in consumer prices. It resulted in inflation, which was nevertheless reduced compared to 2022 and amounted to 8.4% in 2023. The country's GDP, again on the tracks of a good tourist season, recorded growth (approx. 2.6% after the third quarter), which is still less than 5.4% in 2022.

In addition to the high liquidity of the domestic and banking system of the Eurozone, reference interest rates also increased. Thus, the 6-month EURIBOR rate rose from 2.693% at the beginning of the year to 3.832% on the last day of the year.

Likewise, the ECB deposit rate was gradually increased during the year from 2.00%, and at the end of 2023 it amounted to 4.0%

CNB's 12-month National Reference Rate of the average financing cost of the banking sector (NRS) for euros was 0.14%.

The securities market, after a big drop in 2022 due to the start of the war in Ukraine, recovered a little, but on the other hand, due to high reference interest rates, it didn't record a drop in yields. Trading volumes were low, and yields remained the same or declined slightly. The yield on the longest domestic government bond (2040), which was issued with a yield of 1.28%, ended the year at 3.821%.

As for the exchange rate, with the transition to the official currency EUR, the main currency pair EUR/USD moved in the range of 1.0683 – 1.105, which implies that EUR strengthened against the USD throughout 2023.

Within the aforementioned macro framework, the Bank went through the year maintaining a high share of liquid assets in its balance sheet while at the same time reducing its liabilities, but given the rise in interest rates, it slightly increased the average interest cost of its liabilities. On the other hand, given the high ECB deposit rate, interest income was realized on the bank's liquid assets.

In 2023, there was no trading in securities, and therefore there was no realized profit, while in 2022 it amounted to 15 thousand euros. With the introduction of the euro as the official currency, income from exchange rate differences decreased significantly, which in previous years were generated almost exclusively from the EURHRK currency pair. Given that in 2023, 20 thousand euros of income was realized, which is less than in 2022, when they amounted to 201 thousand euros.

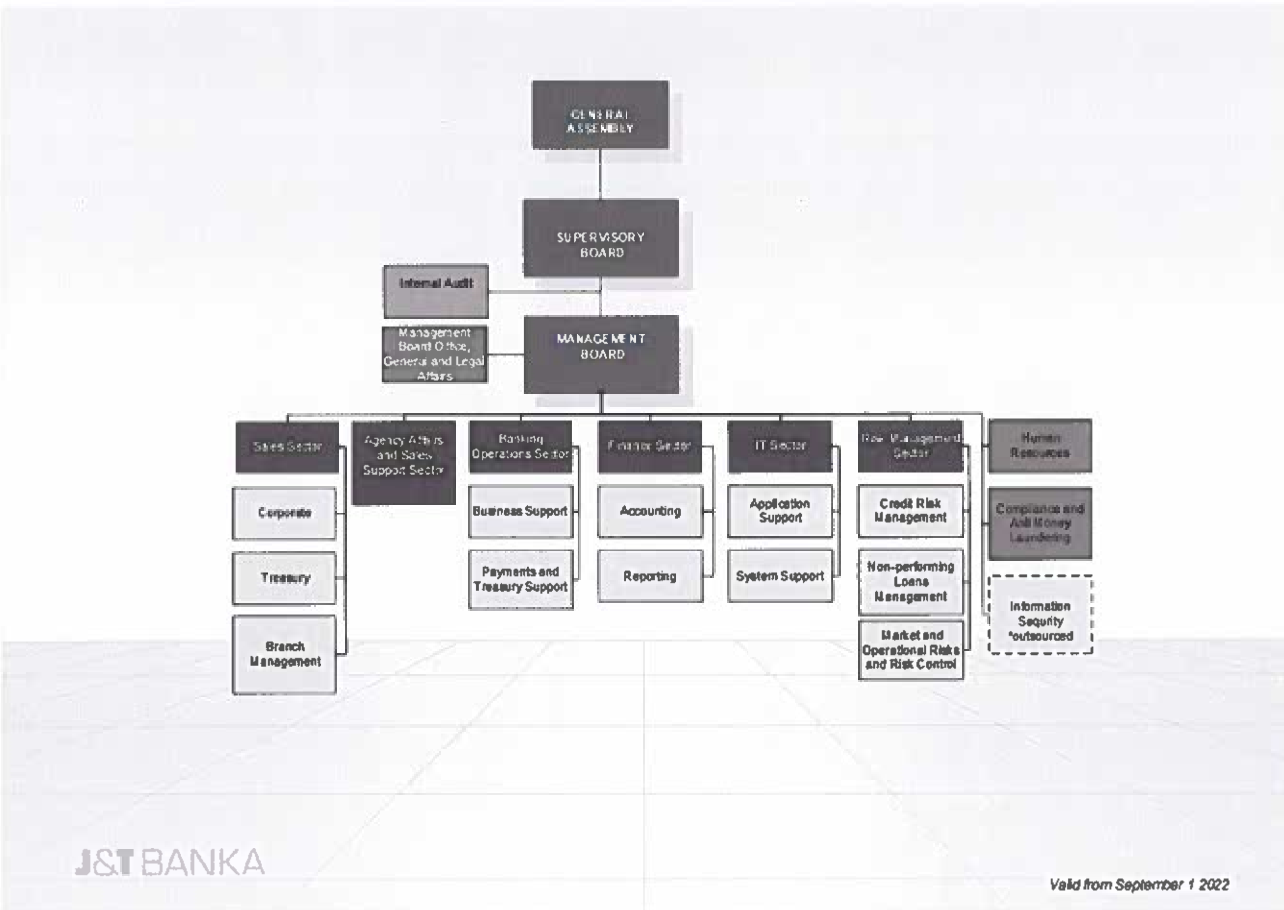
Employees and organizational structure

During 2023, Bank's business took place in Bank's headquarter in Varaždin, branches in Zagreb and Varaždin and office in Zagreb.

During 2023, the Bank did not changed its organizational structure and there was no major fluctuation of employees.

On December 31, 2023 and December 31, 2022 Bank had 52 employees.

Organizational scheme



IT development

OLBIS (Online Bank Information System) is an integral bank information system, which now consolidates all application modules of 'core' system, as well as full regulatory reporting.

During 2023 most activities regarding application development were focused on adaptation of OLBIS system to fulfill legislative and regulatory demands and reports.

In the infrastructure segment, most engagement was related to the preparation and technical upgrades for migration of mail and MS application to the Office365. List of important tasks that have been done:

- Symantec antivirus software upgrade, including Symantec Endpoint Protection and Symantec Email security cloud integration
- Implementing new version of Splunk solution for monitoring activities on the information system environment
- Upgrade of Swift workstations and setup of Splunk monitoring

Internal controls system and control functions

The internal controls system is a set of processes and procedures set up to adequately control risks, monitor efficiency and performance of the Bank's operations, the reliability of its financial and other information, and compliance with regulations, internal acts, standards and codes in order to ensure the stability of the Bank's operations.

The internal controls system shall ensure effective and efficient operations; prudent conduct of business; adequate identification, measurement and mitigation of risks; the reliability of financial and non-financial information and reports; sound administrative and accounting procedures; and compliance with laws, regulations, supervisory requirements and the institution's internal policies, processes, rules and decisions.

In accordance with the Credit Institutions Act and the Decision on governance arrangements, the Bank established an internal controls system comprising the following:

1. appropriate organisational structure;
2. organisational culture;
3. adequate control activities and segregation of duties;
4. appropriate internal controls integrated into business processes and activities of the credit institution;
5. appropriate administrative and accounting procedures;
6. activities within the scope of the control functions of the credit institution.

The Bank prescribed and established adequate control activities and segregation of duties, adequate internal controls and appropriate administrative and accounting procedures carried out in course of the Bank's regular operations.

In accordance with provisions of laws and by-laws, the Bank established three control functions:

1. the risk control function;
2. the compliance monitoring function;
3. the internal audit function.

The risk control function ensures the Bank's compliance with risk management strategies and policies by performing risk analysis, monitoring risk, reporting risk-related information to the Management Board and other persons, and participating in the preparation, application and monitoring of the functionality of risk management methods and models. It also carries out the evaluation of the Bank's internal capital adequacy and controls the preparation of the Bank's recovery plan.

The compliance monitoring function ensures the compliance of the Bank's operations with relevant regulations, standards and codes and internal acts. The compliance monitoring function is responsible for: identifying and assessing the compliance risk to which the credit institution is or might be exposed; advising the management board and other responsible persons on the implementation of relevant laws, standards and rules, including informing them on developments in these areas; assessing the effects that changes in relevant regulations will have on the operation of a credit institution; verifying compliance of new products or new procedures with relevant regulations as well as amendments to such regulations in cooperation with the risk control function; reporting on compliance risk to the management board, the supervisory board and the relevant supervisory board committee, and other relevant persons; cooperating and exchanging information with the risk control function in relation to compliance risk and its management; and providing advice as regards the preparation of training programmes related to compliance.

The internal audit function, as part of the internal controls system, assesses the following: appropriateness of governance arrangements; adequacy of existing policies and of their compliance with regulations and other regulatory requirements and with the Risk appetite and Risk management strategy of the Bank; correctness and effectiveness of implementation of the procedures referred to in Article 24, paragraph (1) of this Decision and the compliance of these procedures with the applicable laws and regulations and with decisions of the Bank's Management board and the Supervisory board; adequacy, quality and effectiveness of the controls performed and the reporting done by the business units and the Risk control and Compliance functions; accuracy and reliability of the accounting records system and financial statements; outsourced activities; strategies and procedures in place to assess the adequacy of internal capital and internal liquidity; information system; reliability of the internal and external reporting systems and timeliness and accuracy of the reports prescribed in the Credit Institutions Act, regulations adopted under that Act and other regulations; methods of asset protection; data collection systems and the validity of information that is publicly disclosed in accordance with Title XIV of the Credit Institutions Act, Regulation (EU) No 575/2013, and other regulations; other assessments as prescribed by the Credit Institutions Act, regulations adopted under that Act, Regulation (EU) No 575/2013, the relevant technical standards and other regulations; other activities necessary to achieve internal audit objectives.

Each control function prepares reports in line with their tasks and established operational work plans, in accordance with provisions of the Credit Institutions Act and regulations and decisions issued based thereon.

Financial reporting control system

The Bank has ensured the internal control systems of the accounting system and financial reporting, 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. 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.

Research and development

Intangible assets include internally developed software of total capitalised value of EUR 2.6 million. The Bank uses software in its business, and it is transferred to use according to the stage of completion.

Expenditure related to the development of software is capitalised when it meets the criteria outlined in IAS 38 Intangible Assets.

Information relating to treasury shares repurchase

The Bank has 590,338 treasury shares as at 31 December 2023.

Subsidiaries information

The Bank has no subsidiaries.

Development plan

Since the entering J&T banka a.s. into ownership structure of the Bank, business strategy is based on implementation of successful and long-term banking experience of J&T Banka in Czech Republic and Slovakia, in Croatia, i.e. in J&T banka d.d. This strategy adapts to the necessities of Croatian market in order to fulfill all regulatory requirements and market specificities.

J&T Finance Group has extensive experience in a wide range of services, starting with retail banking, through corporate banking, where in J&T banka d.d. focus is on corporative banking, private banking did not take root in Croatia, it was decided to continue business with retail banking, but exclusively in aspect of passive business (deposit collection), not active (crediting). The Bank suspended retail activities, meaning loans to retail clients (citizens) through any aspect of consumer loans, but it shall be present in the segment of deposit collection as one of the significant sources of financing.

Plan is to maintain 2 branches during 2024, in Zagreb and Varaždin, in which employees of the Bank shall have direct relationship with clients. It is also planned in the upcoming mid-term period to invest in the acquisition of a ready-made IT solution, which would enable on-line retail deposit collection, which would open an additional large deposit collection channel.

The basic strategic guideline on which the Bank basis its business plans (and which remain in force in 2024 as well) are the following ones:

- focus on corporative market segment, primarily on financing from the domain of investment banking, project financing, refinancing/restructuring of exposures from other creditors, financing investments in the tourist industry, financing projects related to renewable energy sources and financing of real estate project, and other activities within the experience of J&T Group, including J&T banka d.d.,
- creating possibilities for financing of the placements whose necessary amount of credit financing exceeds capital possibilities of the Bank, in a way that other members of the Group (primarily the parent company) are included in the financing through syndicated loans,
- individual approach to the client and creation of banking products in accordance with clients needs,
- finding solutions for the client – so called "customer intimacy" approach – spending significant amount of time with clients in order to understand their needs and to create financial solutions without making solutions which would displease both sides,
- healthy portfolio growth (induced additional tools and criteria while approving placements in order to ensure the quality of portfolio and adequate diversification parallel with the growth of portfolio)
- continuous advancement of credit risk management process within the Bank, i.e. keeping the focus on risk control mechanisms, related to the growth of assets and mostly more advanced and complex loan structures,
- continuous control over operational costs and their maintenance on existing levels, after the operational restructuring has been finalized in previous periods,
- continuous training and education of human resources (in the form of internal education, transferring the knowledge from one organizational unit/person to another as well as encouragement to participate in quality external educations,
- giving significant focus to agency businesses, where the Bank, among other members of the Group, is possible to make significant fee income for management of placements which were in the whole or in its larger part financed on behalf of these members (placements related to financing of foreign investors for projects in Croatia, but also those where the Bank participates and are related to other foreign markets such as Germany, Austria etc.).

The mission is to build a stable bank, or a foreign branch acting as a profit centre, on Croatian market directed towards prosperous clients, who are able to ensure their own assets/equity, as well as contribution of external bodies (for example non-refundable funds, subordinated loans of third parties, etc), while financing certain projects.

Bank's clients should, primarily, should have good reputation, i.e. known and checked entrepreneurs experienced in the financed branch.

Targeted clients of the Bank should be clients who invest adequate part of their own capital or assets into projects which request partial financing from the Bank, and those who are able to obtain additional funding from third parties, which are ready to subordinate their claims to the claims of the Bank. Using above given mechanisms of risk dispersion on several parties/entities, the Bank achieves decrease of credit risk which it takes through approval of certain placement, achieving also more quality in the Bank's portfolio structure.

Certain part of total credit exposure of the Bank shall continue to be directed to financing of foreign clients who are also clients of the J&T Group, but prior to such placements, risk analysis of primary and secondary payment shall be conducted, as well as with all other placements entering into the bank through other sale channels, taking into consideration the specifics of such clients, such as their business activities, in comparison to the clients financed by the Bank in larger scope (duo to which risk product approved to these clients deviate from usual placement conditions in the form of collateral, repayment method, etc.).

The enormous challenge of global warming and climate change puts in front of all subjects who can make a difference the responsibility to contribute to changes. Accordingly, the Bank recognized the need for stronger involvement of ESG risks in the framework of risk management and capital management. Measures to be implemented in the future period will be based on supporting clients with technologically advanced and sustainable operations, which are decreasing reliance on carbon and use energy from renewable sources. In addition, the Bank will prefer those business clients who operate on an ethical basis and use an operating model based on a good and stable corporate management.

Sustainable development is becoming a strategic determinant and one of the priorities in the operations of the Bank, which is aware of its own role, as well as the role of the financial sector, in achieving goals leading to carbon neutrality. In accordance with the environmental (E), social (S) and governance (G) goals of sustainable development, the Bank will try to deal with global climate and social challenges to the greatest extent possible and applicable through its actions and activities.

The Bank regularly updates its Code of Corporate Governance, which contains information related to the rules of good corporate governance in general, but also information related to the company's strategy, taking into account the potential effect of activities on encouraging ethical behavior, respect for human rights and a suitable and stimulating work environment.

During 2024, the Bank will significantly improve its documentary and operational framework, primarily in the segment of environmental risks, but certainly also in the segment of setting certain goals related to the areas of social and governance sustainable development.

Areas from the domain of environmental risks to which special attention will be paid in 2024 (which is in line with the communicated expectations of the regulator) are:

- monitoring and assessing the impact of environmental risks on the Bank's business environment in the short, medium and long term, and taking into account the impact of these risks when defining the business strategy;

- assigning clear responsibility for environmental risks within the Management Board and at lower levels of the organizational structure, including the risk control function, the compliance function and the internal audit function;

- determination of risk-taking propensity for environmental risks with specific limits and key risk indicators;

- determination of data on environmental risks that are necessary for adequate management of these risks, and determination of the method of collecting such data (which should be available at the level of the client and/or individual property, but also at the aggregated level);

- setting up a reporting system on the impact of environmental risks on the business model, strategy and risk profile;

- to the extent that this has not already been done in earlier periods, within the framework of the credit risk management system, it is necessary to (a) establish and implement a procedure that takes environmental risks into account when assessing the creditworthiness of the debtor in order to assess the impact on credit risk, (b) include environmental risks in sectoral credit policies, if necessary by defining lending limits, thresholds and exclusion policies, (c) when classifying exposures/debtors, take into account the impact of environmental risks, (d) determine risk reduction measures resulting from the impact of environmental risks, at the level of individual exposures/obligors, (e) include the impact of environmental risks on the valuation of collateral, for significant portfolios;

- establishment of a procedure for assessing the impact of environmental events on the continuity of the Bank's operations, with its regular implementation;

- establishment and regular implementation of the evaluation procedure to what extent the Bank is exposed to a negative financial impact due to the nature of its activities and the activities of its clients based on reputational and legal risk, related to the negative impact on the environment;

- the establishment and regular implementation of the procedure for assessing whether significant environmental risks lead to net cash outflows or to the reduction of the liquidity protection layer (if deemed necessary, the inclusion of these risks in liquidity risk management);

- establishment and regular implementation of the procedure for monitoring the impact of environmental factors on current market risk positions, as well as on future investments.

While forming the credit risk strategy, Bank shall further take into consideration the goal of adequate portfolio diversification, which shall be addressed with continuation of minimally annual update of introduced internal limits for certain product types, activities and all other mutual risk factors, all with the goal of mastering and controlling the concentration risk.

Collection of deposits and share capital generate the basis for fulfilment of previously given mission, together with parallel maintenance of capital requirements, i.e. capital adequacy ratio at minimal level. J&T banka, a.s. has in the previous period ensured enough capital to fulfill all legal criteria necessary for further development of the bank, and Bank's business plans for future put further accent on capital adequacy as primary goal.

In line with above stated, during its regular update of the Risk Appetite Statement in 2024, the Bank will maintain its target indicators in the domain of capital adequacy at a level that contains appropriate levels of reserves (so-called buffers) in respect to minimum prescribed levels of capital adequacy indicators, in order to enable a more proactive and earlier reaction in case that these indicators are worsened in a way that they are at suboptimal levels.

Depending on price trends at capital market, the Bank shall in the future actively adapt its pricing/interest rate policy, in order to combine in its financing structure the funds received from its deponents (retail and corporate) and funds received from other sources, which is primarily related to the possibility of assets growth financing through credit line from the owner.

As the Bank currently has significant liquidity reserves, and deposits this excess liquidity in the form of overnight loans with the Croatian National Bank, passive interest rates will be formed in accordance with the movements of reference interest rates at the EU level, and therefore in accordance with the movements of interest rates that CNB pays for funds deposited with them. Due to the still present significant dose of uncertainty regarding the way reference interest rates will move in the future, the Bank will try to use its interest rate policy to motivate clients to deposit funds up to a maturity of 6 months, all in order to reduce the risk of mismatch between the Bank's passive interest rates and reference interest rates.

Also, in case of further necessity, owners have expressed the possibility of further capital strengthening of the Bank in their letter of support (primarily due to growth of Bank's portfolio).

During 2024, the Bank will be focused on providing comprehensive support in the process of transforming the bank into a branch, in areas where this is applicable. Namely, the project of converting the Bank into a branch of J&T banka, a.s. began its operational implementation during August 2023.

Risk management

The most significant types of financial risk to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk include foreign exchange risk, interest rate risk and risk of changes in market prices of equity and debt securities. The Bank is also starting to introduce into its operations ESG risk – related to environmental, social and management factors.

An integrated risk management system is being developed and constantly upgraded on the Bank level by introducing policies and procedures for risk assessment, measurement, control and management, and for determining the risk exposure limits compliant with the legal framework and the Bank's risk profile.

Credit risk

The Bank is exposed to credit risk through its trading, lending and investing activities and in cases where it acts as an intermediary on behalf of a client or third party or when issuing guarantees. The risk of default which occurs in financial instrument transactions with certain parties is constantly monitored. To manage credit risk, the Bank deals with clients of good credit standing and obtains security instruments in order to, as a rule, secure the repayment of placement by two independent instruments (cash flow and collateral).

Credit risk is managed in line with the Bank's policies. Credit exposure toward a portfolio or specific groups is regularly reviewed in accordance with established limits. The competent bodies of the Bank responsible for approving limits are regularly informed of limit utilization. The Credit Committee approves all material increases in credit exposure and issues all decisions related to credit risk.

Liquidity risk

Liquidity risk arises in the funding of the Bank's activities and in the management of its positions. The Bank has access to different sources of funding. Funds are collected through a variety of instruments, including different type of deposit, borrowings, dependent liabilities, including deposits, borrowings and equity. The Bank is systematically working on defining the procedures and business processes that efficiently monitor liquidity risk by detecting and monitoring changes in funding in order to achieve business objectives set in accordance with the overall business strategy of the Bank.

The Bank adapts its business activities related to liquidity risk in accordance with legal provisions and internal policies for maintaining liquidity reserves, matching assets and liabilities and limit control, and with targeted liquidity ratios and contingency plans. The Treasury manages liquidity reserves on a daily basis and ensure that all of the client's needs are successfully met.

Market risk

Market risk management entails position and foreign exchange risk management. In order to manage position risk defined as the risk of loss arising from the change in the price of a financial instrument, a limit system has been established according to the type of financial instrument and issuer. Limit utilization is monitored on a daily basis.

Foreign exchange risk, defined as loss arising from the change in exchange rates of a relevant foreign currency due to the currency gap in the balance sheet, is managed by the Bank on a daily basis in accordance with legal provisions related to the open foreign exchange position.

Interest rate risk represents the sensitivity of the Bank's financial position to movements in interest rates. The Bank's operations are influenced by interest rate risk to the extent that interest-bearing assets and liabilities mature, or their interest rates change at different points in time or in different amounts.

Operational risk

Operational risk exists in every segment of the Bank's operations, requiring knowledge and continuous monitoring of all business processes. The organizational model of the operational risk management process is conceived at the level of centralized and decentralized functions of operational risk management and it is carried out in accordance with legal provisions, Basel guidelines and internal acts (policies, procedures and methodologies for operational risk management).

In the context of managing operational risk of the information system, IS security management entails a series of periodic activities whose aim is to reduce operational risk of the Bank's information system, or more precisely, to implement control mechanisms, improve business processes and harmonize with legislation in order to reduce damages that vulnerabilities can cause in the Bank's information system.

In order to manage operational risk, the Bank has provided appropriate risk management for risk management, information system risk, risk model, risk to project management, risk management related to outsourcing, risk management compliance, business changes, including business risks, new products, activities, processes and systems, significant inherent risks in existing products, activities, processes and systems, and business continuity management. The Bank has provided an appropriate system for preventing money laundering and financing of terrorism.

ESG risks

ESG (environmental, social and governance) factors represent new sources of risk that need to be identified, assessed, monitored and managed as well as incorporated into the existing risk management system.

The main goal of the Bank in managing environmental risks is to avoid unacceptable effects of ESG factors (financial, reputational, ...) on the current and future operations of the Bank. The risk of tolerance towards environmental, social and management risks for the Bank is low, and the Bank will gradually limit investments and exposures in portfolios that are a source of environmental risks. In the medium term, the Bank's intention is to redirect capital flows towards sustainable projects and into sustainable assets.

Policies for managing financial risk are described in detail in Notes to the Annual Report for the year 2023.

Signed on March 22, 2024 for and on behalf of J&T banka d.d. Varaždin:

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Hrvoje Draksler, President of the Management Board

J&T BANKA d.d.

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Petar Rajković, Member of the Management Board

Responsibilities of the Management Board and Supervisory Board for the preparation and approval of the annual report

The Management Board is responsible for preparation of financial statements for each financial year which fairly present, in all material respect, the financial position of J&T banka d.d. ("the Bank") and its operation and cash flows, in accordance with applicable accounting standards, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. It has a general responsibility for a taking such steps as are reasonably available to it to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

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

The Management Board is responsible for submission of its annual financial statements to the Supervisory Board, following which the Supervisory Board is required to approve the annual financial statements for submission to the General Assembly of Shareholders for adoption.

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

The financial statements set out on pages 31 to 122 as well as supplementary schedules for the Croatian National Bank, set out on pages 123 to 130 and reconciliation, set out on pages 131 to 140 were authorised by the Management Board on 22 March 2024 for issue to the Supervisory Board and are signed bellow to signify this.

The Management Board is also responsible for the preparation and content of the Management Report as required by the Croatian Accounting Law, and for other information which comprises the Introduction, the Macroeconomic Environment and Banking Sector in the Republic of Croatia in 2023 set out on pages 2 to 12 and the Management Report presented on pages 13 to 24 and were approved by the Management Board on 22 March 2024, and are signed bellow.

For and on behalf of J&T banka d.d.:

Hrvoje Draksler, President of the Management Board

J&T BANKA d.d.

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Petar Rajković, Member of the Management Board

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of J&T banka d.d.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of J&T banka d.d. (the Bank), which comprise the statement of financial position as at 31 December 2023, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.
We are independent of the Bank in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants, including International Independence Standards (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Republic of Croatia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the financial statements of the current period. This matter is addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.
We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	How we addressed Key Audit Matter
Determination of expected credit losses	
See Note 4 Risk Management and Note 9 Loans and advances to customers. Determination of expected credit losses represent management's best estimate of the expected credit losses within the loan portfolios at the reporting date. Assessment of appropriate staging of exposures depends mostly on triggers ("trigger events") identified by management as indicators of significant increase in credit risk of customers and impairment respectively. These triggers are subject to high level of judgement of the Management.	We obtained an understanding of the control environment and internal controls established by management in the process of measuring impairment provisions for expected credit losses. We evaluated the design of controls over the calculation of collective and individual impairment provisions of the Bank's portfolio, including the quality of the source data and the system. With the assistance of credit risk specialists, we assessed the methodology developed to calculate loan loss provisions under IFRS 9, concentrating on such aspects as factors for determining a "significant increase in credit risk", allocating loans to stages,

Impairment provisions for expected credit losses for Stage 1 and Stage 2 (performing exposures) are calculated on collective basis and require use of complex models (depending on the elements of the information system). Models are based on key parameters such as probability of default ("PD") including forward-looking information, and loss given default ("LGD") except of LGD parameter for exposures above EUR 30,000 for which it is calculated on individual basis based on different scenarios. Impairment provisions for expected credit losses for Stage 3 (non-performing exposures) are calculated on individual basis, require significant judgment of the Management Board and include high degree of subjectivity in estimating future cash-flows and timing of recoverability. Assessment of expected credit losses is based on significant assumptions including estimate of future cash flows, value of collateral and period of collateral disposal based on different scenarios. Additionally, uncertain economic outlook resulted in more complex assessment onto expected credit losses. Additionally, regulator and market are focusing on exposures as they represent core business of the bank and provisioning of the loans is significantly affecting the result of the bank. This area is determined to be a key audit matter as the determination of the appropriate amount of impairment losses requires application of significant judgement and use of subjective and complex assumptions by management.	appropriateness of models used for calculation of Stage 1 and Stage 2 allowances and estimation of key provisioning parameters. Also, with assistance of credit risk specialists, we tested algorithms defined in Bank's system for calculation of key risk parameters. With the assistance of IT specialists, we assessed and tested retrieval of historical data from Bank's database used for determination of key risk parameters. We examined a sample of exposures and performed procedures to evaluate the adequacy of classification of exposures in stages (including but not limited to assessing the creditworthiness of clients, review of input parameters such as probability of default, testing of reported days past due, assessing adequacy of *Early warning signals* ("EWS") and watch list status). For sample of Stage 1 and Stage 2 exposures (performing loans), we evaluated matrices used in the calculation of probability of default ("PD"). Additionally, with respect to models, we understood and assessed how the current macroeconomic expectations are incorporated in the model as part of forward-looking information. Also, we evaluated defined loss given defaults ("LGD") for exposures below EUR 30,000. For loss given default ("LGD") for sample of exposures above EUR 30,000, we assessed assumptions used by Management by comparing estimated future cash flows, value of collateral and weights for each scenario defined by the Bank with those estimated by us. On a sample of Stage 3 exposures (non-performing loans) for which provisions are determined on individual basis, we tested the assumptions used in identifying impairment and quantification including estimates of future cash flows, estimates of related collaterals and estimates of recovery on default and assessed whether the specific Croatian National Bank ("CNB") provisioning requirements were reflected in the calculation. This also included taking into consideration the impact of forbearance. Our audit procedures for individually significant exposures focused on measuring the expected credit losses of individually significant credit exposures, including assessing whether historical experience is appropriate for estimating the amount of credit losses in the portfolio. We also assessed adequacy of the disclosures in Note 4 Risk Management and Note 9 Loans and advances to customers in the financial statements and if these are in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Building a better
working world

Other matter

The audit of the Bank's financial statements for the year ended December 31, 2022 was performed by another auditor who issued an unqualified audit opinion on March 22, 2023.

Other information

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

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

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

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

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

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

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

Responsibilities of management and Audit Committee for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

Building a better working world

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

- Identify and assess the risks of material misstatement of the 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 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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were initially appointed as auditors of the Bank on August 30, 2023 representing a total period of uninterrupted engagement appointment of 1 year.

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Consistence with Additional Report to Audit Committee

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

Provision of Non-audit Services

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

Report on Regulatory requirements

In accordance with the Decision on the structure and content of the annual financial statements of credit institutions (National Gazette no 42/18, 122/2020, 119/2021 and 108/2022) (hereinafter "the Bylaw") the Bank's management has prepared forms which are presented on pages 123 to 140, and which contain a statement of financial position as at 31 December 2023, statement on comprehensive income, statement of changes in equity and cash flow statement for the year then ended together with reconciliation with the financial statements of the Bank ("financial information"). This financial information is the responsibility of the Bank's management and is, pursuant to statutory accounting regulation as applicable to banks in Croatia, not a required part of the financial statements but is required by the Bylaw.

Our responsibility with respect to this financial information is to perform the procedures we consider appropriate to conclude whether this financial information have been properly derived from the audited financial statements. In our opinion based on the procedures performed the financial information presented in the forms has been properly derived, in all material respects, from the audited financial statements of the Bank which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU) as presented on pages 31 to 122 and are based on underlying accounting records of the Bank.

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

ERNST & YOUNG
d.o.o.
Zagreb, Radnička cesta 50

Zvonimir Madunić
Member of the Management Board and Certified auditor

March 22, 2024

Ernst & Young d.o.o.
Radnička cesta 50
10000 Zagreb
Republic of Croatia

Statement of financial position as at 31 December 2023

[EUR'000]	Notes	31 December 2022	31 December 2023
ASSETS			
Amounts with the Croatian National Bank	6	28,476	24,625
Cash and accounts with other banks	7	3,765	2,686
Financial assets - securities	8	15,665	14,355
Loans and advances to customers	9	37,620	30,694
Property and equipment	10	1,805	1,764
Intangible assets	11	661	538
Other assets	12	203	265
TOTAL ASSETS		**88,195**	**74,927**
LIABILITIES			
Deposits from customers	13	69,200	57,113
Deposits and borrowings from banks	14	885	201
Subordinated debt	15	3,000	3,000
Provisions for liabilities and charges	16	233	301
Other liabilities	17	1,828	2,042
TOTAL LIABILITIES		**75,146**	**62,657**
EQUITY			
Share capital	18.a	43,412	43,412
Share premium	18.b	2,845	2,845
Treasury shares	18.d	(292)	(292)
Other reserves	18.c	503	503
Fair value reserve	18.e	(2,508)	(1,746)
Accumulated loss	18.f	(30,911)	(32,452)
TOTAL EQUITY		**13,049**	**12,270**
TOTAL LIABILITIES AND EQUITY		**88,195**	**74,927**

The significant accounting policies and other notes on pages 36 to 122 form an integral part of these financial statements.

Income statement for 2023

[EUR'000]	Notes	2022	2023
Interest income calculated using the effective interest method	19	2,375	3,574
Interest and similar charges	20	(498)	(532)
Net interest income		**1,877**	**3,042**
Fee and commission income	21	663	322
Fee and commission expense	22	(64)	(42)
Net fee and commission income		**599**	**280**
Net gains and losses from financial assets at fair value through profit or loss and financial assets at fair value through OCI	23	15	-
Net foreign exchange gains and FX trading income	24	204	20
Other income	25	350	271
Trading and other income		**569**	**291**
Personnel expenses	26a	(1,698)	(1,808)
Depreciation and amortisation	10, 11	(599)	(730)
Other administrative expenses	26b	(1,009)	(1,258)
Expected credit losses	27a	(1,870)	(1,181)
Provisions	27b	(176)	(176)
(LOSS) / PROFIT BEFORE TAX		**(2,307)**	**(1,540)**
Income tax expense	28a	-	-
(LOSS) / PROFIT FOR THE YEAR		**(2,307)**	**(1,540)**
EARNINGS PER SHARE (in HRK)		**(0.07)**	**(0.05)**

The significant accounting policies and other notes on pages 36 to 122 form an integral part of these financial statements.

Statement of comprehensive income for 2023

[EUR'000]	2022	2023
Profit/ (loss) for the year	**(2,307)**	**(1,540)**
Items that will be reclassified subsequently to profit or loss:		
Financial assets at fair value through OCI - net change in fair value	(2,603)	753
Financial assets at fair value through OCI – reclassified to profit or loss	15	-
Financial assets at fair value through OCI - net changes in ECL allowance	(36)	8
Financial assets at fair value through OCI - deferred tax	10	-
Other comprehensive (loss)/gain, net of tax	**(2,614)**	**761**
TOTAL COMPREHENSIVE INCOME/(LOSS)	**(4,921)**	**(779)**

The significant accounting policies and other notes on pages 36 to 122 form an integral part of these financial statements.

Statement of changes in equity

[EUR'000]	Notes	Share capital	Share Premium	Treasury shares	Other reserves	Fair value reserve	Accumulated loss	Total
Balance at 1 January 2022		**40,758**	**2,845**	**(292)**	**503**	**107**	**(28,604)**	**15,316**
Total comprehensive income								
Profit for the year		-	-	-	-	-	(2,307)	(2,307)
Financial assets at fair value through OCI:								
Net change in fair value		-	-	-	-	(2,603)	-	(2,603)
Reclassified to profit or loss		-	-	-	-	15	-	15
Net changes in ECL allowance		-	-	-	-	(36)	-	(36)
Deferred tax on movements in fair value reserve		-	-	-	-	10	-	10
Total comprehensive income/(loss)		-	-	-	-	(2,614)	(2,307)	(4,921)
Recapitalization		2,654	-	-	-	-	-	2,654
Balance at 31 December 2022		**43,412**	**2,845**	**(292)**	**503**	**(2,507)**	**(30,911)**	**13,049**
Balance at 1 January 2023		**43,412**	**2,845**	**(292)**	**503**	**(2,507)**	**(30,911)**	**13,049**
Total comprehensive income								
Loss for the year		-	-	-	-	-	(1,540)	(1,540)
Financial assets at fair value through OCI:							-	-
Net change in fair value		-	-	-	-	753	-	753
Reclassified to profit or loss		-	-	-	-	-	-	-
Net changes in ECL allowance		-	-	-	-	8	-	8
Deferred tax on movements in fair value reserve		-	-	-	-	-	-	-
Total comprehensive income/(loss)		-	-	-	-	761	(1,540)	(779)
Balance at 31 December 2023		**43,412**	**2,845**	**(292)**	**503**	**(1,746)**	**(32,451)**	**12,270**

The significant accounting policies and other notes on pages 36 to 122 form an integral part of these financial statements.

Statement of cash flows for 2023

[EUR'000]	Notes	2022	2023
Cash flow from operating activities			
Profit/(loss) for the year		(2,307)	(1,540)
Adjustments:			
Depreciation, amortization and value adjustments of property and equipment and intangible assets	10, 11	599	730
Write-offs of property and equipment		12	207
Impairment losses and provisions without foreclosed assets	27	2,046	1.338
Net interest income		(1,877)	(3,042)
Net gains on financial assets at fair value through profit or loss and financial assets at fair value through OCI	23	(15)	-
		(1,542)	**(2.307)**
Changes in operating assets and liabilities			
Net (increase)/decrease in loans and advances to customers		6,866	6.019
Net (increase)/decrease in placements with other banks		63	-
Decrease in obligatory reserves		4,875	-
Net decrease in other assets		1,636	(63)
Net increase/(decrease) in deposits from customers		(8,060)	(12,088)
Net (decrease) in other liabilities and provisions		(476)	282
Movements in operating assets and liabilities		**4,904**	**(5,850)**
Interest received		2,530	3,451
Interest paid		(513)	(718)
Net cash inflow/outflow from operating activities		**5,379**	**(5,424)**
Receipts from/(purchase of) investment funds		(2,098)	-
Purchase of debt securities		7,046	1,911
Proceeds from debt securities		(202)	(269)
Acquisition of property and equipment and intangible assets		-	5
Net cash outflow / inflow from investing activities		**4,747**	**1,647**
Receipts from borrowings		12,212	-
Repayment of borrowings		(18,293)	(684)
Repayment of lease liabilities		(275)	(442)
Cash payment for the interest portion of lease liabilities		(34)	(30)
Increase/(decrease) in subordinated debt		(2,648)	-
Recapitalization of the owner		2,654	-
Net cash outflow from financing activities		**(6,384)**	**(1,156)**
Net (decrease)/increase in cash and cash equivalents		3,742	(4,933)
Cash and cash equivalents at the beginning of the year		28,513	32,255
Cash and cash equivalents at the end of the year	**32**	**32,255**	**27,322**

The significant accounting policies and other notes on pages 36 to 122 form an integral part of these financial statements.

Notes to the financial statements

1. General information

J&T banka d.d. ("the Bank") Member of the J&T Finance Group, dated back to 1994, when the Brodsko-posavska banka d.d. was incorporated in Slavonski brod, to build upon the tradition of the former Varaždinska banka, it changed its name on December 27, 2004 to Vaba d.d. banka Varaždin and relocated to Varaždin.

The Czech bank J&T a.s. recapitalised the bank with EUR 10 million in June 2014 and increased the Bank's capital to EUR 17.1 million. During 2015, J&T has further invested in the Bank's capital and the share capital was increased to EUR 40.8 million. During 2016, another increase of the share capital of the Bank was conducted in the amount of EUR 10.1 million by the majority shareholder of the Bank - J&T Bank a.s. so the new share capital amounts to EUR 43.4 million, and J&T Banka a.s. holds a total of 25,350,000 shares tags BPBA-R-B or equity of 82.55%. After taking over shares from small shareholders during 2022, J&T banka a.s. holds a total of 32,708,540 shares, or a share in the share capital of 98.20%.

By decision of the General Assembly dated 30.08.2023. the share capital in the amount of HRK 327,085,400.00 was adjusted, which according to the fixed conversion rate of the kuna to the euro amounts to EUR 43,411,692.88 reduced by the amount of EUR 2.88 by entering into the capital reserves, so that the share capital of the company entered in the court register on 18.09.2023. year and now amounts to EUR 43,411,690.00.

From 1 January 2017 the Bank started operating under the name J&T banka d.d.

These financial statements were approved by the Board on 22 March 2024 for submission to the Supervisory Board.

2. Basis of presentation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union ("IFRS").

The principal accounting policies applied in the preparation of these financial statements are summarized below. The Bank has consistently applied the following accounting policies to all periods presented in these financial statements, except as disclosed above.

When preparing these financial statements for the year that ended on December 31, 2023, the Bank continued to take into account certain minimum provisions in accordance with the applicable rules of the Croatian National Bank (HNB), primarily related to the determination of credit losses for individual placements that have been in the default status for a longer period of time, provisions for certain categories of litigation and recognition of interest income for financial assets classified in the stage 3 in accordance with the rules of the Croatian National Bank. The Bank believes that the application of the aforementioned remaining rules does not affect the material compliance of the report with IFRS.

Notes to the financial statements (continued)

2. Basis of presentation (continued)

(b) Basis of measurement

The financial statements are prepared on a fair value basis for financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income. Other financial assets and liabilities, and non-financial assets and liabilities, are stated at amortized or historical cost.

(c) Use of estimates and judgments

In preparing the financial statements, the Management Board has made judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosure of potential liabilities at the reporting date, as well as on the amounts of income, expense and other comprehensive income for the period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and information available at the date of the preparation of the financial statements, the result of which form the basis for making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by the management in application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of a possible material adjustment in future periods are discussed in Note 5.

(d) Functional and presentation currency

The Bank's financial statements are presented using the currency of the primary economic environment in

which the Bank operates (the functional currency), euros (EUR). Amounts are rounded to the nearest thousand, unless otherwise stated.

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

Although the change in the presentation currency in the financial statements represents a change in accounting policy that requires retroactive application, the Bank did not publish the third balance sheet in the financial statements for the year ended December 31, 2023 in accordance with International Accounting Standard 8 (IAS) Accounting Policies, Changes in Accounting Estimates and Errors, given that it determined that the change in the presentation currency does not have a significant impact on the Bank's financial statements, due to the stable HRK/EUR exchange rate over the past few years.

Notes to the financial statements (continued)

2. Basis of presentation (continued)

(e) Changes in accounting policy and disclosures

The standards/amendments that are effective and have been endorsed by the European Union

The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS and amendments to IFRS which have been adopted by the Group/Company as of 1 January 2023:

- IFRS 17 insurance contracts,
- IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments),
- IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments),
- IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments),
- IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules (Amendments)

The newly adopted IFRS and amendments to IFRS did not have a material impact on the Group's/Company's accounting policies.

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

The Amendments are effective for annual periods beginning on or after January 1, 2023. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Bank assessed its accounting policies disclosure and concluded there is no significant changes in existing disclosures compared to Amendments.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments have no significant impact on the financial statements of the Bank.

(f) Standards issued but not yet effective and not early adopted

The standards/amendments that are not yet effective, but they have been endorsed by the European Union

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments).**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. Management has assessed amendments will not have significant impact on Bank's financial statements.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current.

The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. Management has assessed amendments will not have significant impact on Bank's financial statements.

The standards/amendments that are not yet effective and they have not yet been endorsed by the European Union

- **IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The amendments have not yet been endorsed by the EU. Management has assessed amendments will not have significant impact on Bank's financial statements except additional disclosures.

(g) Standards issued but not yet effective and not early adopted (continued)

The standards/amendments that are not yet effective and they have not yet been endorsed by the European Union (continued)

- **IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique. The amendments have not yet been endorsed by the EU. Management has assessed amendments will not have significant impact on Bank's financial statements.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed amendments will not have significant impact on Bank's financial statements.

(h) Going concern

The financial statements have been prepared on a going concern basis.

In 2023, the Bank realised a loss of EUR 1.5 million (2022: net loss of EUR 2.3 million) and at 31 December 2023 had accumulated losses of EUR 32.5 million (31 December 2022: 30.9 million). Due to significant losses in the past, the Bank had several recapitalisations by the majority owner since 2014 in order to maintain capital adequacy prescribed by the CNB.

As disclosed in Note 4.1.5, the TIER 1 capital adequacy ratio at 31 December 2023 amounts to 28.62% and is above the minimum rate prescribed by the CNB and the Bank's total capital adequacy ratio amounts to 29.46%.

The Russia-Ukraine conflict upended the geopolitical landscape, with wide-ranging impacts to the global economy and markets. The duration and path of the conflict remains uncertain, and could continue to fuel, or exacerbate global tensions, energy and other commodity shortages, supply chain disruptions, inflationary pressures, weakening sentiment and growth prospects, market volatility cyberattacks, and the proliferation of sanctions and trade measures.

Notes to the financial statements (continued)

2. Basis of presentation (continued)

(f) Going concern (continued)

Considering the significant macroeconomic uncertainty, the Management Board believes with reasonable certainty that the Bank will have sufficient resources to continue operations for at least 12 months from the reporting date and that the going concern basis of preparation of financial statements is appropriate.

As disclosed in Note 39, the going concern assumption has been influenced by systemic threats associated with the uncertain macroeconomic environment.

Note 39 provide further details of the facts and circumstances considered by the Management Board in concluding on the going concern assumption.

Notes to the financial statements (continued)

3. Significant accounting policies

(a) Interest income and expense

Interest income and expense are recognized in profit or loss as it arises for all interest-bearing financial instruments, including those measured at amortized cost and FVOCI debt securities, taking into account the effective rate of return of the asset / liability or the applicable variable rate. Interest income and expense includes amortization of the discount or premium, as well as other differences between the initial carrying amount of the interest-bearing financial instrument and the amount by maturity, which is calculated using the effective interest rate.

An effective interest rate is the rate at which the expected future cash outflows or receipts are discounted over the expected lifetime of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Interest income is recognized depending on the degree of credit risk of a financial instrument and for financial assets classified in Stage 1 and Stage 2 (performing) - when calculating interest income, the EIR is applied to the gross carrying amount of financial assets, and for financial assets allocated to Stage 3 the interest is suspended. Suspended interest represents an already charged interest on an asset for which an individual impairment has been recognized (non-performing).

At the time of reclassification into uncollectable receivables, the Bank impairs the full amount of accrued uncovered interest at the expense of the income statement and suspends further calculation in the balance sheet and keeps the suspended interest off-balance until the debtor makes a cash payment.

For purchased or originated credit-impaired financial assets decreased for credit losses - POCIs, the EIR adjusted for credit risk at the amortized cost of the POCI assets is applied in the calculation of interest income. The Bank suspends calculation of interest in the balance sheet and keeps the suspended interest off-balance until the debtor makes a cash payment.

In calculating the effective interest rate, the Bank does not take into account future credit losses. The calculation includes all fees and percentage points paid or received between the contracting parties which are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(b) Fee and commission income and expense

Fee and commission income and expense arise on financial services provided by the Bank and received by the Bank, and mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business and other services provided by the Bank. Fee and commission income and expense are recognised in the income statement when the related service is performed.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part for itself or has retained a part at the same effective interest rate as other participants. Portfolio and other management service fees are recognised based on the applicable service contracts.

(c) Dividend income

Dividend income from equity securities is recognised in the income statement when the rights to receive the dividend are established.

(d) Net realised gains and losses from financial assets at fair value through profit or loss and financial assets at fair value through OCI

The category includes realised and unrealised gains and losses on debt and equity securities held for trading and other financial instruments at fair value through profit or loss.

Net gains and losses on derecognition of financial assets at fair value through other comprehensive income refer to gains and losses from sale of debt securities classified as FVOCI.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(e) Net foreign exchange gains and losses

Net gains and losses from foreign exchange include unrealised and realised gains and losses arising from spot dealings in foreign currencies.

(f) Foreign currencies

Foreign currency transactions are translated into the respective functional currency using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into EUR at the foreign exchange rate prevailing at that date.

Foreign currency differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into EUR at the foreign exchange rate prevailing at the date on which their fair value was determined.

Non-monetary assets and items that are carried at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction and are not re-translated.

Changes in the fair value of securities denominated in foreign currency classified as fair value through OCI are separated between exchange rate differences arising from changes in the amortized cost of securities and other changes in the carrying amount of the security. Foreign exchange differences on securities classified as FVOCI are recognised in profit or loss, while other changes in carrying amount are recognised in other comprehensive income.

Foreign exchange differences are recognized in the income statement as part of exchange gains or losses on the sale of monetary assets and liabilities. Foreign exchange differences on non-monetary financial assets, are included within other comprehensive income.

(g) Financial instruments

i) Classification

After initial recognition, financial assets are classified as assets at amortized cost, assets at fair value through other comprehensive income (FVOCI).

A debt instrument is measured at fair value through other comprehensive income (FVOCI) if it meets both of the following conditions and if it is not valued at fair value through profit and loss account (FVTPL):

- The purpose of the business model is the holding of assets for the purpose of collecting contractual cash flows and the sale of financial assets; and
- contractual terms of financial assets presume cash flows that are solely principal and interest repayment (SPPI), at specific dates.

In the initial recognition of an investment in equity instruments that are not held for trading, the Bank may irrevocably decide to display subsequent changes in fair value through other comprehensive income. This choice is made on the basis of a particular investment.

All other financial assets are classified as measured at fair value through profit or loss (FVTPL).

In addition, at initial recognition, the Bank may irrevocably evaluate financial assets at fair value through profit or loss (FVTPL), although it meets the measurement requirements at amortized cost or at fair value through other comprehensive income (FVOCI), if this eliminates or substantially reduces the accounting mismatch that would arise if contrary.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

i) <u>Classification</u> (continued)

Business Model Assessment

The Bank determines the goal of the asset's business model because it best represents the way in which assets are managed and the Bank's management is reported. Information considered includes:

- management policies and portfolio objectives and implementation of these policies in practice;
- assessing the performance of the portfolio and reporting to the management of the Bank;
- risks affecting the performance of the business model (and financial assets within that business model) and the risk management strategy; and
- frequency, volume and time of sales in previous periods, reasons for the sale and expectations of future sales activities.

Financial assets held for trading and whose performance is assessed on the basis of fair value are measured at fair value through profit and loss account, as it is not held for the purpose of collecting the contracted cash flows nor for collecting contractual cash flows and for sale.

Estimate whether contractual cash flows are solely principal and interest payments

In order to assess whether contractual cash flows are solely payments of principal and interest, the principal is defined as the fair value of financial assets at initial recognition. Interest is defined as compensation for the time value of money and credit risk associated with the outstanding principal amount over a specified period of time and for other basic risks and costs of lending (eg liquidity risk and administrative costs) and as a profit margin.

When assessing whether the contractual cash flows are solely principal and interest payments (SPPI), the Bank considers the contractual terms of the instrument. This includes assessing whether a financial asset contains a contractual term that could change the time or amount of contractual cash flows so that it would not meet the SPPI requirement. When assessing, the Bank considers:

- potential events that would change the amount and time of cash flows;
- terms of prepayment and extension; and
- features that alter the consideration of the time value of money (eg periodic interest rate reset).

Loans and advances to customers

The "Loans and advances to customers" caption in the statement of financial position includes loans and advances measured at amortised cost; initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

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

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

i) Classification (continued)

Financial assets - investment securities

The 'financial assets - investment securities' caption in the statement of financial position includes:

- debt securities measured at fair value through other comprehensive income (FVOCI); and
- equity investment securities designated as at fair value through other comprehensive income (FVOCI).

For debt securities measured at fair value through other comprehensive income (FVOCI), gains and losses are recognised in other comprehensive income (OCI), except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest income;
- calculation of Expected credit loss (ECL) and reversals; and
- foreign exchange gains and losses.

When debt security measured at fair value through other comprehensive income (FVOCI) is derecognised, the cumulative gain or loss previously recognised in other comprehensive income (OCI) is reclassified from equity to profit or loss.

The Bank decides to present in other comprehensive income (OCI) changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

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

ii) Recognition and derecognition

Loans and receivables and financial liabilities at amortised cost are recognised when advanced to borrowers or received from lenders. Regular way purchases and sales of financial assets are recognised on the settlement date. The settlement date is the date that an asset is delivered to or by the Bank and while the underlying asset or liability is not recognised until the settlement date, changes in the fair value of the underlying financial assets and liabilities at fair value through profit or loss and FVOCI financial assets are recognised starting from the trade date.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

ii) Recognition and derecognition (continued)

Derecognition of financial assets due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, apart from quantitative factors, the bank considers the following: change in currency of the loan, introduction of an equity feature, change in counterparty, whether the modification is such that the instrument no longer meets the SPPI criterion.

Modifications of financial assets which do not result in substantially different cash flows

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

Derecognition of financial assets other than for substantial modification

A financial asset (or, a portion thereof or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control. The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass-through" arrangements that result in derecogntion if the Bank: (i) has no obligation to make payments unless it collects equivalent amounts from the assets, (ii) is prohibited from selling or pledging the assets and (iii) has an obligation to remit any cash it collects from the assets without material delay.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

ii) Recognition and derecognition (continued)

Derecognition of financial assets other than for substantial modification (continued)

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred assets and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.
Collaterals (e.g. bonds) furnished by the Bank under standard repurchase agreements and borrowing transactions are not dereocognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price and the criteria for derecognition are therefore not met.

Derecogntion of financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. If the terms of a financial liability are significantly modified, the Bank will cease recognising that liability and will instantaneously recognise a new financial liability, with new terms and conditions.
Realised gains and losses from the disposal of financial instruments are calculated by using the weighted average cost method.

iii) Initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Financial assets at fair value through profit or loss are initially recognised at fair values, and transaction costs are directly recognised in profit or loss.

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

Loans and receivables and investments measured at amortised cost and financial liabilities not designated at fair value through profit or loss are measured at amortised cost.

iv) Gains and losses

Gains or losses arising from a change in the fair value of financial assets or financial liabilities at fair value through profit or loss are recognised in the income statement.

Gains or losses arising from a change in the fair value of FVOCI financial assets are recognised directly in the other comprehensive income. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on financial assets at FVOCI are recognised in profit or loss. Foreign exchange differences on equity instruments are part of the fair value of these instruments and are recognised in other comprehensive income.

Upon sale or other derecognition of FVOCI financial assets, any cumulative gains or losses on the instrument are transferred to the income statement.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

v) Determination of fair value of financial instruments

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

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. For the quoted price, the Bank uses the last available closing median price from the Reuters platform. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If a market for a financial instruments is not active, for unlisted securities, or, if for any reason, fair value cannot be reasonably measured by market price, then the Bank establishes fair value using a valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction The Bank recognises the transfer between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is entirely supported by observable market data. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counterparty where appropriate.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vi) Impairment of financial assets

The Bank recognises loss allowances for "expected credit losses" (hereinafter: ECL) on the following financial instruments that are not measured at fair value through profit or loss (FVTPL):

- debt instruments;
- financial guarantee contracts issued; and
- loans and advances to customers.

No impairment loss is recognised on equity investments and financial assets at fair value through profit or loss (FVTPL).

The Bank measures impairment losses at an amount equal to lifetime expected credit losses (ECL), except for the following, for which they are measured as 12-month expected credit loss (ECL):

- debt securities for which it was determined to have a low credit risk at the reporting date; and
- other financial instruments for which credit risk has not significantly increased since their initial recognition.

12-month expected credit losses (ECL) are the portion of expected credit loss (ECL) that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month expected credit loss (ECL) is recognised are referred to as "Stage 1 financial instruments", or A-1 risk category by CNB.

Life-time expected credit losses (ECL) are the expected credit losses (ECL) that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime expected credit loss (ECL) is recognised but which are not credit-impaired are referred to as "Stage 2 financial instruments", or A-2 risk category by CNB.

Expected Credit Loss Measurement (ECL)

For the purpose of assessing the expected credit losses, the Bank prescribes processes and control mechanisms for the development and application of estimation methods of expected credit losses with a goal to ensure their integrity and timely inclusion of relevant data.

Probability of default (PD) provides an estimate of the probability that the borrower will not be able to fulfil his obligations. For PD calculations loans and advances are divided into corporate and retail. Corporate loans are divided into homogeneous groups, based on type of product, while retail is a separate homogeneous group. For each homogeneous groups, the default rate is calculated based on available internally developed historical data. In order to incorporate future information adequately into macroeconomic scenarios, the Bank uses adjustments of the calculated PD to macroeconomic expectations. The macroeconomic scenario is determined on the basis of customised publicly available information, where GDP is taken as the main indicator, followed by the consumer price index and employment. To determine the PD (probability of default) for exposures to sovereign, central banks and financial institutions or exposures rated by an external credit rating institution, the Bank uses data available on the Moody's Investor Service website. The assigned PD is based on counterparty external credit rating.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vi) Impairment of financial assets (continued)

Expected Credit Loss Measurement (ECL) (continued)

LGD (Loss Given Default) represents a loss due to default status. For unsecured exposures for which an external credit rating is available, the Bank uses the basic approach prescribed by the BIS (Bank for International Settlement) and LGD of 45% is applied (Basel Committee on Banking Supervision Discussion Paper Regulatory treatment of accounting provisions, October 2016). For securities managed under the Financial Assets model through other comprehensive income, and primarily related to corporate bonds, the Bank uses the internal rating of the parent company (J&T bank a.s.) to calculate the ECL ("Expected credit loss"). For financial instruments that relate to exposures to financial institutions which are supervised by the central bank, but do not have an established rating of the recognized ECAI, the Bank applies a single provisioning percentage of 0.80% of the gross carrying amount.

Restructuring of financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Definition of default

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, loan commitments and financial guarantees are credit-impaired (referred to as 'Stage 3 financial assets').

The borrower is considered as defaulted and therefore Stage 3 in cases when the borrower is more than 90 days past due on any material credit obligation to the Bank or when the borrower is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security.

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

- significant financial difficulties of the debtor;
- breach of contract such as failure to complete or due to maturity;
- restructuring of a loan or an advance by the Company under conditions that the Company would not consider in the normal circumstances;
- it is probable that the borrower will enter bankruptcy or another type of financial reorganisation.

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

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(g) Financial instruments (continued)

vi) Impairment of financial assets (continued)

Presentation of impairment allowance for expected credit loss (ECL) in the statement of financial position

Loss allowances for expected credit loss (ECL) are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the asset;
- credit lines and issued guarantees: in general, as provisions;
- when the financial instrument includes a drawn and an undrawn component, and the Bank can not identify the expected credit loss (ECL) separately: The Bank shows a loss for both as a deduction from the gross carrying amount of the used component;
- Debt instruments measured at fair value through other comprehensive income (FVOCI): no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

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

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

vii) Offsetting of financial instruments

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

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

(h) Specific financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, on bank accounts, placements with other banks with original maturities of three months or less, and items in the course of collection.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(h) Specific financial instruments (continued)

Placements with banks

Placements with banks are classified as loans and receivables and are carried at amortised cost less impairment losses.

Current accounts and deposits from banks

Current accounts and deposits from banks are classified as other liabilities and stated at amortised cost.

Deposits from customers

Deposits are classified as other liabilities and initially measured at fair value plus transaction costs, and subsequently stated at the amortised costs using the effective interest method.

Loans and advances to customers

Loans and advances to customers are presented net of impairment losses to reflect the estimated recoverable amounts or at fair value for loans and advances that are measured at fair value.

Borrowings

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

Financial guarantee

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

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value, being the premium received, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Financial guarantees are included within other liabilities.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(i) Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16. At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

Right-of-use assets

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

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

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

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

- fixed payments, including in-substance fixed payments and
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date

The lease liability is measured at amortised cost using the effective interest method.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

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

(j) Income tax

Income tax is based on taxable income for the year and comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(j) Income tax (continued)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured by using the tax rates expected to apply to taxable profit in the years in which the carrying value of assets and liabilities is expected to be recovered or settled based on tax rates enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would arise from the manner in which the Bank expects, at the reporting date, to recover or settle the net carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the balance sheet. Deferred tax assets are recognised only to the extent that it is probable that they could be utilised as a tax benefit. At each balance sheet date, the Bank reassesses unrecognised potential deferred tax assets and the carrying amount of recognised deferred tax assets.

(k) Property and equipment

Property and equipment are tangible items that are held for use in the supply of services or for administrative purposes.

Recognition and measurement

Property and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes the cost that is directly attributable to the acquisition of assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.
Land and assets under construction are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

	2022	2023
Buildings	33 years	33 years
IT equipment	5 years	5 years
Furniture and equipment	7-15 years	7-15 years
Motor vehicles	4 years	4 years
Other assets	10 years	10 years

Residual values are not taken into account. Depreciation methods and estimated useful lives are reassessed at each reporting date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the income statement.

(l) Intangible assets

Intangible assets are recorded at cost less accumulated amortisation and impairment. Expenditure on development activities is recognised as intangible assets if all of the requirements of IAS 38 "*Intangible Assets*" are met. Amortisation is provided on the straight-line basis over the estimated useful lives of intangible assets. Costs associated with maintaining intangible assets are recognised as an expense as incurred.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(l) Intangible assets (continued)

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

	2022	2023
Leasehold improvements	5 years	5 years
Software	5 years	5 years
Applicative software developed by the Bank	10 years	10 years
Licenses	5 years	5 years

(m) Impairment of non-financial assets

The recoverable amount of property and equipment and intangible assets is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

All non-financial assets previously impaired, are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation/depreciation, if no impairment had been recognised.

(n) Provisions for liabilities and charges

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

Provisions for liabilities and charges are maintained at a level which the Bank's Management Board believes is adequate to absorb probable future losses. The Management Board determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of various categories of transactions and other relevant factors. Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If an outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

(o) Employee benefits

Pension obligations

The Bank pays contributions to state-owned institutions and obligatory pension funds managed by privately owned management companies, in accordance with legal requirements or by individual choice. The Bank has no further payment obligations once the contributions have been paid. Pension contributions are recognised as staff costs in the income statement as they accrue.

Other employee benefits

Liabilities based on other long-term employee benefits, such as jubilee awards and statutory termination benefits, are recorded as the net present value of the liability for defined benefits at the reporting date.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

(o) Equity

Issued share capital represents the nominal value of paid-up ordinary shares classified as equity and is denominated in EUR. The premium on the issued shares presents the surplus of the fair value above the nominal value of the issued shares.

Accumulated losses

Accumulated losses include losses from previous periods and loss for the year.

Loss per share

The Bank presents basic loss per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Treasury shares

Acquisition of treasury shares is carried out in the cases provided by the Companies Act, primarily in order to eliminate possible damage. Purchased treasury shares are stated at cost of purchase. The difference realized through the sale of treasury shares at the cost above the cost of acquisition is shown in favor of the capital gains account, and the difference realized below the cost of acquisition represents a capital loss.

(p) Off-balance-sheet commitments and contingent liabilities

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

(q) Foreclosed assets

Foreclosed assets are stated at lower of the net recoverable value of property and the value of the related receivables. The Management Board has estimated that the carrying value of these assets approximates their market value.

The Bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the cost of the related loans and advances and the current fair value of such assets. The Bank's intention is mainly to sell such assets, which, however, in certain limited cases may end up being used by the Bank.

Gains or losses on disposal are recognised in the income statement.

Notes to the financial statements (continued)

4. RISK MANAGEMENT

4.1 Internal assessment of risk of the Bank's operations

This section provides details regarding the Bank's exposure to risk and describes the methods used by the management to identify, measure and manage risks in order to safeguard capital. The most significant types of financial risks to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk.

For the most significant risks, the Bank adopted strategies and policies which include objectives and basic principles of risk assumption and management, define its risk profile and risk appetite and the compliance of the Bank's risk profile and the level of capital.

The Bank has established a risk management system appropriate to the nature, scope and complexity of the business, and the risk profile of the Bank, which includes an adequate strategy, policy and other internal regulations for risk management, organisational structure with defined authorities and responsibilities for risk management, risk management process and system of internal controls. The Bank regularly monitors and checks the risk management system and identifies and assesses the risks to which it is or expects to be exposed in its operations.

4.1.1 Credit risk

The Bank is subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties. Credit risk can be defined as a risk of financial loss of the Bank by a counterparty failing to discharge its obligation.

The Bank manages its credit risk exposure in accordance with the legislative requirements and regulations of the Croatian National Bank, as well as in accordance with its internal procedures. The Bank has established a system for monitoring its entire loan portfolio. The Credit Committee, the Supervisory Board and the Audit Committee are regularly informed of the quality of the portfolio. The analysis of the loan portfolio includes, at a minimum, an analysis of risk categories, overdue days and total exposure. Report on Credit Risk and Concentration Risk is prepared by the Risk Management Sector. Based on the analysis results, decisions are made on the Bank's strategy toward the counterparty, group of related parties, certain industry or economic sector, geographical region, risk product type, certain type of collateral, etc.

Risk Appetite Statement in the area of credit risk and Credit Risk Management Policy and Strategy is the main document, i.e. a framework for managing credit risk, which is complemented with procedures, instructions and other documents that define the following in more detail:

- credit risk appetite,
- clear lines of authority and responsibility,
- way of assumption, overcoming and management of credit risk,
- defining the credit process and establishing a system of control and reporting of credit risk exposure,
- methodology for determining credit worthiness, measurement and assessment of credit risk for the duration of the repayment / validity of risky products,
- procedures for controlling and monitoring credit risk, including the establishment of exposure limits,
- maximum exposure limits regarding risk products with common risk factors,
- procedures and measures for approval of deviations from the application of existing policies, in case such deviations should occur and
- stress testing as a preparation of the Bank for possible crisis situations.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit risk assessment

The process of credit risk assessment of placements comprises the following:

- debtors' creditworthiness,
- timely settlement of due instalments and
- collateral quality.

Creditworthiness is assessed for each loan application, and thereafter, as a minimum once a year subsequent to the delivery of the annual financial statements by the clients to which the Bank is exposed.

Monitoring of placements and contingent liabilities includes continuous assessment as to whether elements exist which would indicate a deterioration of the customer's financial position or an increase in risk due to the decrease of collateral value.

The Bank's effort, whenever possible, is to reconcile the customers' ability to pay in accordance with prevailing market conditions by way of overall restructuring of the debtors' operations or financial position. This should ultimately lead to a better settlement of liabilities to the Bank and improve the liquidity of customers in order to ensure business stability and sustainability over the long term.

The amount of loan loss provisions is determined considering the current and expected classification of credit exposures and credit parameters (Probability of Default, Loss Given Default and Exposure at Default) which, in accordance with IFRS 9 incorporate among other factors forward looking information and the expected evolution of the macro-economic scenario.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Classification of placements into risk categories

The risk classification process and classification criteria into risk categories and impairment for expected credit losses is defined by the CNB's Decision on the Classification of Exposure to Risk Groups and the Method of Determining Credit Losses and IFRS 9 *Financial instruments*.

The Bank classifies its loan exposures into two groups: small loan portfolio (group of related exposures below EUR 30 thousand) and individually significant exposures (group of related exposures exceeding EUR 30 thousand). Impairment of small loan portfolio exclusively depends on the ageing of overdue amounts, while impairment of individually significant exposures are individually assessed for impairment, as it was earlier described in Note 3 g) vi).

Almost all provisions for expected credit losses for the small loan portfolio are measured on a collective basis. The portfolio of gross exposures for which ECL provisions are measured on a collective basis as at 31 December 2023 amounted to EUR 142 thousands (2022: EUR 169 thousands).

On initial recognition, financial assets subject to the expected credit loss model are classified in risk category A-1, except in the case of purchased or created financial assets less credit losses when the indicator POCI is added to the risk category.

The Bank reassesses the risk of each exposure subject to the expected credit loss model at least every 3 months, and possibly more frequently if necessary. The Bank assesses the credit quality of exposures throughout the contractual relationship and classifies those exposures into appropriate risk groups based on the following general classification criteria:

1) the debtor's creditworthiness,

2) regularity in the settlement of the debtor's obligations to the credit institution and other creditors represents the debtor's ability to fully settle its obligations to the Bank on the basis of principal, interest, fees and other grounds within the agreed terms,

3) the quality of the security for individual exposures, which is determined on the basis of market liquidity, documentation and the ability to exercise supervision by the bank, the possibility of forced collection and value in relation to the exposure based on placements / off-balance sheet liabilities.

Increased credit risk arises in the event of any of these conditions occurring and indicates the reclassification of exposures from A1 to A2:

- the borrower is late in payment of its overdue exposures by more than 30 days at the reporting date (based on materiality threshold), but is still within deadlines not exceeding 90 days (based on materiality threshold),,
- in the last 3 months, the borrower has been late in paying its overdue exposures more than 30 days (based on materiality threshold), and
- existence of "forbearance" measures.

In addition to the day of delays mentioned in the previous paragraph, the Bank prescribes additional indicators for large portfolio that are monitored and indicate increased credit risk. These are indicators of a qualitative and quantitative nature closely related to the client's business. The occurrence of any of the indicators indicates a reclassification of exposures.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Classification of placements into risk categories (continued)

The Bank considers that default status has occurred in the following conditions and refers to the reclassification of exposures to the minimum B1 risk category.

- the debtor has failed to fulfil its overdue obligation for more than 90 days under any significant credit obligation to the credit institution, its parent company or any of its subsidiaries
- the Bank considers it probable that the debtor will not fully meet its obligations to the Bank, its parent company or any of its subsidiaries without considering the possibility of collateral collection. In this regard, the Bank prescribes indicators for large portfolio that, in addition to the day of delay, indicate default status. These are indicators of a qualitative and quantitative nature closely related to the client's business.

After calculating the required impairment, the Bank allocates exposures to risk categories depending on the level of the calculated loss (in accordance with the CNB Regulations).

1. **Risk category A**

   A1 - newly approved exposures at the beginning of the contractual relationship and exposures where no significant increase in credit risk was identified since initial recognition (calculation of expected credit losses over a twelve-month period)

   A2 - exposures where a significant increase in credit risk was recognized since initial recognition (calculation of expected credit losses over the lifetime of the financial asset)

2. **Risk category B** — partly recoverable exposure which are classified into three subcategories, depending on the percentage of the impairment losses recognized in relation to the nominal carrying amount:

   B1 – when the level of impairment and provisions does not exceed 30% of the exposure amount;

   B2 – when the level of impairment and provisions amounts to more than 30% (minimum 30.01%) and not more than 70% of the exposure amount;

   B3 – when the level of impairment and provisions is more than 70% (minimum 70.01%) and less than 100% of the exposure amount.

3. **Risk category C** - non-recoverable placements with impairment at the amount of 100% exposure.

Exposures classified in risk groups A-1 and A-2 represent performing exposures, while exposures in risk groups B and C represent non-performing exposures.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least 3 consecutive months, or 12 months in case Forbearance activities were previously made on the defaulted obligor.
Once cured, the decision whether to classify in Stage 2 or Stage 1 depends on whether there has been a significant increase in credit risk since initial recognition.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Assets exposed to credit risk

The Bank's primary exposure to credit risk arises from loans and advances to customers, debt securities, amounts with the CNB, accounts with banks and receivables. In addition, the Bank is exposed to credit risk arising from off-balance-sheet items, through commitments arising from guarantees issued. Exposures to banks and other assets that are not presented at fair value are also considered a credit risk where the credit risk is not the primary risk of impairment. The table below presents the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is presented net of impairment for expected credit losses before the effect of mitigation through collateral agreements.

[EUR'000]	Notes	31 December 2022	31 December 2023
Amounts with the Croatian National Bank	6	28,476	24,625
Giro accounts with other banks	7	3,765	2,686
Financial assets at fair value through OCI	9	15,665	14,355
Loans and advances to customers	10	37,620	30,694
Other assets	13	13	53
Total assets exposed to credit risk		**85,538**	**72,413**
Guarantees		173	207
Credit lines		532	-
Total off-balance sheet exposure to credit risk	33	**705**	**207**
Total credit risk exposure		**86,243**	**72,620**

The total exposure to credit risk for financial assets at fair value through OSD, i.e. the nominal amount of exposure including the associated accrued interest amounts to EUR 15,525 thousand.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Collateral and other credit enhancements held

In terms of credit risk mitigation, the Bank's policy is to require suitable collateral to be provided by customers prior to the disbursement of approved loans. As a rule, the Bank approves a facility if there are two independent and viable repayment sources – cash flows generated by the borrower's activity and security instruments/collateral.

In general, a quality security instrument is an instrument with characteristics that provide a reasonable estimate of the Bank's ability to recover its receivables secured by that instrument (in case of its activation), through market or court mechanisms, within a reasonable period of time. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its regular review of the adequacy of the allowance for impairment losses.

Based on the applicable acts, the Bank's standard collateral instruments are, in addition to promissory notes and bills of exchange: bank guarantees, real estate and movable asset pledges/fiduciary rights, fiduciary/pledge rights on shares and shares in open-ended investment funds, fiduciary/pledge rights on equity interests in a company, assignment of receivables from companies and government, guarantees of guarantee agencies and cash deposits.

A significant part of the corporate portfolio is secured by mortgages over different types of property. The liquidity of the real-estate market has an effect on the recoverability of assets and its timing in cases where, due to borrowers' financial difficulties, the Bank relies on collateral for collection.

The valuation of property and movable assets is performed by certified assessors included in the list of the Bank's certified assessors. The collateral value is revised based on common business practices and market movements.
The collaterals undergo a valuation process within the bank, performed by specially trained staff. In addition to the collateral valuation process, eligibility is determined for each security instrument in accordance with internal regulation. All collaterals are subject to revaluation.

For exposures greater than EUR 25 thousand (and especially for placements that make up more than 5% of recognized capital or exceed the amount of EUR 3,000,000 - whichever is lower), the assessment is carried out by an independent authorized appraiser at least every 3 years, while for exposures greater than EUR 130,000, a new internal assessment is carried out on an annual basis. We have ensured adequate rotation of independent valuers for both good and bad exposures, meaning that after two consecutive valuations by the same valuer, another must be appointed for the next valuation. Also, the share of the value of the estimates of an individual appraiser must not exceed 35% of the total assets of the portfolio.

The revaluation method depends on the type of collateral and the exposure. For real estate which secures exposures to corporate acceptable methods are comparative, income and cost method. Comparative method is mostly used for residential and commercial properties, income method for properties which main purpose is rental activities while cost method is mostly used for properties with public/community purposes, non-rental and non-comparable residential properties.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Collateral and other credit enhancements held (continued)

The table below sets out the carrying amount and the value of identifiable collateral (mainly residential and commercial property) held against loans and advances to customers measured at amortised cost. For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against:

[EUR'000]	2022 Carrying amount	2022 Collateral	2023 Carrying amount	2023 Collateral
Loans and advances to customers at amortised cost				
Corporate				
Stage 1 and Stage 2	31,167	4,598	24,349	9,711
Stage 3	10,897	6,320	11,953	6,095
	42,064	10,918	36,302	15,806
Retail				
Stage 1 and Stage 2	287	255	259	235
Stage 3	166	7	114	3
	453	262	373	238
Total	**42,517**	**11,180**	**36,675**	**16,044**

The table below show the market value of collateral:

Type of collateral	Market value of collateral	
[EUR '000]	31 December 2022	31 December 2023
Commercial property	9,261	11,334
Cash deposits	285	1,287
Movable property	805	3,021
Other types of collateral	113	68
Residential property	716	334
Total	**11,180**	**16,044**

Assets obtained by taking possession of collateral

During 2023 there were no repossessions of collateral while the net book value of repossessed assets on 31st December 2023 amounts to EUR 54 thousand.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Collateral and other credit enhancements held (continued)

Restructuring of loan exposures

Restructuring of an exposure resulting with a decrease of initially contracted debtor's liabilities, is considered to be an evidence of loss. The Bank has set up a system for identifying and subsequent monitoring of restructured exposures. Restructured exposures which were classified in risk category A before restructuring, are at least classified to risk category B1. Restructured exposures which were classified in one of the sub-categories of the risk category B before restructuring are classified in that same risk category or lower after restructuring. Reclassifying a restructured exposure into a different risk category is performed immediately during the restructuring:

Restructured exposures may be classified into risk category A after a period of at least 12 months if, after the credit assessment, it is evident that the exposure meets the following conditions:

a) financial position of the client is based on reliable cash flows
b) regular repayment has been established in a period of minimum 12 months and during that period significant payments have been made (regular repayment means no debt due over 30 days)
c) there are no overdue outstanding claims in accordance with the repayment plan that is applied in accordance with the restructuring plan.

An overview of restructured balance sheet exposures by portfolio segment and by restructuring status for the year 2023 and 2022 is given below:

Amount of balance sheet exposures with forbearance measures

	31 December 2022			31 December 2023		
[EUR '000]	performing exposures with forbearance measures	non-performing exposures with forbearance measures	Total	performing exposures with forbearance measures	non-performing exposures with forbearance measures	Total
Retail	-	54	54	3	12	15
Corporate	-	3,619	3,619	-	3,037	3,037
Total	-	3,673	3,673	3	3,049	3,052

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis

The following table presents information on credit quality of financial assets measured at amortized cost, debt instruments at fair value through other comprehensive income and other assets. Unless otherwise indicated, for financial assets shown in the table, values are represented as gross book value. For credit lines and guarantees, the amounts in the table are obligatory or guaranteed amounts.

[EUR'000]	2023			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Amounts with the CNB				
Very low risk	24,643	-	-	24,643
ECL allowance	(17)	-	-	(17)
Carrying value	**24,626**	-	-	**24,626**
Giro accounts with other banks and cash in the cash register				
Very low risk	2,687	-	-	2,687
ECL allowance	(1)	-	-	(1)
Carrying value	**2,686**	-	-	**2,686**
Loans and advances to customers at amortised cost				
Very low risk	24,056	-	-	**24,056**
Low risk	316	-	-	**316**
Medium risk	8	227	-	**235**
High risk	-	-	10,029	**10,029**
Default	-	-	2,038	**2,038**
ECL allowance	(264)	(6)	(5,710)	**(5,980)**
Carrying value	**24,116**	**221**	**6,357**	**30,694**
Other assets at amortised cost				
Very low risk	52	-	-	**52**
Low risk	1	-	-	**1**
High risk	-	-	74	**74**
Default	-	-	2	**2**
ECL allowance	-	-	(76)	**(76)**
Carrying value	**53**	-	-	**53**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

[EUR '000]	2023			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
Very low risk	14,355	-	-	**14,355**
Low risk	-	-	-	-
Medium risk	-	-	-	-
ECL allowance – accrued interest	-	-	-	-
Carrying value	**14,355**	-	-	**14,355**
Corresponding ECL allowance, recognised in equity fair value reserve	8	-	-	**8**
Very low risk	46	-	-	**46**
Low risk	-	-	-	-
Medium risk	-	-	-	-
High risk	-	-	243	**243**
Default	-	-	-	-
ECL allowance	-	-	(82)	**(82)**
Carrying value	**46**	-	**161**	**207**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

[EUR'000]	2022			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Amounts with the CNB				
Very low risk	28,476	-	-	28,476
ECL allowance	-	-	-	-
Carrying value	**28,476**	**-**	**-**	**28,476**
Accounts with banks				
Very low risk	3,778	-	-	3,778
ECL allowance	(13)	-	-	(13)
Carrying value	**3,765**	**-**	**-**	**3,765**
Loans and advances to customers at amortised cost				
Very low risk	25,429	-	-	**25,429**
Low risk	3,024	-	-	**3,024**
Medium risk	16	2,985	-	**3,001**
High risk	-	-	6,153	**6,153**
Default	-	-	4,910	**4,910**
ECL allowance	(412)	(251)	(4,234)	**(4,897)**
Carrying value	**28,057**	**2,734**	**6,829**	**37,620**
Other assets at amortised cost				
Very low risk	12	-	-	**12**
Low risk	1	-	-	**1**
High risk	-	-	55	**55**
Past due impaired	-	-	2	**2**
ECL allowance	-	-	(57)	**(57)**
Carrying value	**13**	**-**	**-**	**13**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

[EUR'000]	2022			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
Very low risk	15,665	-	-	**15,665**
Low risk	-	-	-	-
Medium risk	-	-	-	-
ECL allowance – accrued interest	-	-	-	-
Carrying value	**15,665**	-	-	**15,665**
Corresponding ECL allowance, recognised in equity fair value reserve	(42)	-	-	**(42)**
Credit lines				
Very low risk	532	-	-	**532**
Low risk	-	-	-	-
Medium risk	-	-	-	-
ECL allowance	(14)	-	-	(14)
Carrying value	**518**	-	-	**518**
Guarantees				
Very low risk	-	-	-	-
Low risk	83	-	-	**83**
Medium risk	-	-	-	-
High risk	-	-	93	**93**
Default	-	-	-	-
ECL allowance	(1)	-	(2)	**(3)**
Carrying value	**82**	-	**91**	**173**

The credit risk of financial assets and credit lines and guarantees is presented through the internal credit risk classification.

Internally, the Bank classifies exposures to the following risk categories:

Very low risk - the client is timely in servicing its liabilities in last 12 months and the client has not been on watch list for the last 12 months,

Low risk – the client is timely in servicing its liabilities at the reporting date, but in the last 12 month the client has been classified in A2 or the client has been on Monitoring list,

Medium risk – the client has days of delays over 30 days but it is still classified as performing at the reporting date or the client is timely in servicing its liabilities at the reporting date but in the last 12 months the client had days of delays over 90 or it was restructured,

High risk – NPL exposures which has not exceeded 60 days of delays in the last 12 months,

Default – NPL exposures.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Credit Quality Analysis (continued)

The following table sets out information about the overdue status of loans and advances to customers at amortised cost in Stages 1, 2 and 3, which includes principal and interest by each instrument:

	2023				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost – gross carrying amount					
Current	21,858	-	7,623	-	**29,481**
Overdue < 30 days	2,522	227	2,407	-	**5,156**
Overdue >30<90 days	-	-	103	-	**103**
Overdue > 90	-	-	1,935	-	**1,935**
	24,380	**227**	**12,068**	**-**	**36,675**

	2022				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost – gross carrying amount					
Current	28,469	2,980	9,101	-	**40,550**
Overdue < 30 days	-	4	29	-	**33**
Overdue >30<90 days	-	-	1	-	**1**
Overdue > 90 days	-	-	1,933	-	**1,933**
	28,469	**2,984**	**11,064**	**-**	**42,517**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Input data, assumptions and techniques used to estimate impairment

When determining whether the risk of default on a financial instrument has increased significantly from the initial recognition, the Bank takes into account both quantitative and qualitative information and expert credit assessments. The criteria for determining a significant increase in credit risk are set for the purpose of a proper allocation of exposure from Stage 1 to Stage 2. Throughout the contractual relationship, the Bank assesses credit exposure quality and classifies those exposures into appropriate risk groups on the basis of the general classification criteria:

- creditworthiness of the debtor,
- the timeliness in settling liabilities towards the credit institution and other creditors represents the debtor's ability to fully settle its liabilities towards the Bank including principal, interest, commissions and other liabilities within the agreed terms,
- the quality of the collateral instruments determined on the basis of marketability, documentation and the possibility of exercising control by the bank, the possibility of enforcement and value in relation to exposure / off-balance sheet liabilities.

Credit risk is considered to have increased considerably from the initial recognition if any of the following occurs:

- at the reporting date the debtor is past due for more than 30 days (based on materiality threshold), but is still within a period not exceeding 90 days and
- at the reporting date the borrower is timely in settling its liabilities. Days past due have not exceeded 30 days but exposure has been past due for more than 30 days in the last 3 months, not exceeding 90 days,
- Existence of "forbearance" measures.

Except for days past due, the Bank uses qualitative indicators to determine the increased credit risk pursuant to the internal credit risk monitoring system for the purpose of transitioning between "stages".

Macroeconomic adjustment

Measurement of financial assets reflects the best estimate of the effects of future conditions, and in particular the economic conditions affecting forward-looking probabilities of the non-performance of liabilities and losses due to the non-fulfillment of obligations. In order for future information and macroeconomic scenarios to be adequately included, the Bank prescribed the manner and the conditions of adjustments of the calculated PD and LGD to macroeconomic expectations. The macroeconomic scenario is determined on the basis of adjusted publicly available information.

The Bank monitors Macroeconomic Developments primarily through the CNB's releases and the publication Macroeconomic Forecasts and Trends. Major macroeconomic indicators which are monitored are GDP, consumer price index and employment.

For the purpose of adjusting the calculated PD to macroeconomic expectations, only GDP trends are considered, as the most significant macroeconomic variable, while credit risk parameters are stressed based on the changes in macroeconomic variables.

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Input data, assumptions and techniques used to estimate impairment (continued)

Macroeconomic adjustment (continued)

For the purpose of macroeconomic adjustment of the LGD, GDP is also considered as the main macroeconomic factor, but also the main indicators and risk drivers in the relevant economic sectors may be included. The LGD is adjusted for the estimated impact of macroeconomic developments represented by GDP on the probability of collection or business results of customers, using the same scenarios with the same probabilities as in the calculation of macroeconomic adjustment of PD.

The macroeconomic adjustment for PD and LGD this year was 0, which is a conservative approach given the positive projected future developments.

Modification of financial assets

In some situations, change in conditions or modifications in the contracted cash flow may result in termination of the recognition of an existing financial asset.

When a modification of a financial asset results in cessation of recognition of an existing financial asset and subsequent recognition of a modified financial assets, the modified financial asset is viewed as a "new" financial asset.

Modification or change in contractual cash flows of financial assets occurs when re-contracting or as another change in contractual cash flows between the first recognition and maturity of the financial asset. Changes to the contractually agreed terms must be legally binding and enforceable.

When re-contracting or any other changes in contractual cash flows occur, during the period between initial recognition and maturity of the financial asset, the Risk Management Division / Credit Risk Management Department is obligated to determine whether there are any modifications and whether the modifications are so significant that the existing financial asset is derecognised and a new financial asset is recognised.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Expected Credit Loss Measurement (ECL)

Key figures for measuring expected credit loss are the following variables: probability of default (PD); loss given default (LGD)

Expected Credit Losses (ECL) in Stage 1 are calculated by multiplying the 12-month PD with LGD and the value of the exposure to credit risk at the reporting date. The ECL for the entire lifetime is calculated by multiplying the PD for its entire lifetime with LGD and the carrying amount of exposure to credit risk at the reporting date. Lifetime ECL is calculated by multiplying the lifetime PD with LGD and the gross book value of exposure at the reporting date.
The following definitions apply to PD and LGD:

- PD (likelihood of a non-fulfilment of obligations): the probability of a transition from performing status to non-performing status over an one-year period,
- LGD (loss due to the non-fulfilment of obligations): percentage of loss in case of non-performing of obligations.

The table below shows the movement of expected credit losses for Loans and advances to customers valued at amortized cost:

[EUR '000]	2023				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost					
As at 1 January 2023	412	251	4,234	-	4,897
Transfer to expected credit losses in 12 months	9	(3)	(6)	-	-
Transfer to expected credit losses during lifetime	-	-	-	-	-
Transfer to non-performing status	-	(1)	1	-	-
Net remeasurement of loss allowance	(157)	(241)	2,011	-	1,613
Collected impaired interest	-	-	(529)	-	(529)
Write-offs and other movements	-	-	-	-	-
As at 31 December 2023	264	6	5,711	-	5,981

Expected credit losses for Loans and advances to customers measured at amortized cost has been increased by EUR 1,613 thousand. Majority of this general increase is a result of a significant ECL increase for Stage 3 exposures (one large exposure). Changes among Stage 1 exposures have no significant reasoning behind but are a result of regular final repayments of Stage 1 exposures. During 2023 there were no transactions which would include sale of NPLs.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Expected Credit Loss Measurement (ECL) (continued)

[EUR'000]	2022				
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	POCI	Total
Loans and advances to customers at amortised cost					
As at 1 January 2022	**321**	**345**	**2,369**	**-**	**3,035**
Transfer to expected credit losses in 12 months	12	-	(12)	-	-
Transfer to expected credit losses during lifetime	-	18	(18)	-	-
Transfer to non-performing status	(41)	(158)	199	-	-
Net booking/release of loss allowance	120	46	2,098	-	**2,264**
Collected impaired interest	-	-	(277)	-	**(277)**
Write-offs and other movements	-	-	(125)	-	**(125)**
As at 31 December 2022	**412**	**251**	**4,234**	**-**	**4,897**

The table below shows the movement of expected credit losses of financial assets at fair value through other comprehensive income recognized in equity:

[EUR'000]	2023			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
As at 1 January 2023	-	-	-	-
Net remeasurement of loss allowance	8	-	-	8
D8erecognised financial assets	-	-	-	-
Write off	-	-	-	-
As at 31 December 2023	**8**	**-**	**-**	**8**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.1 Credit risk (continued)

Expected Credit Loss Measurement (ECL) (continued)

[EUR'000]	2022			
	12- month ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)	Total
Financial assets at fair value through other comprehensive income				
As at 1 January 2022	36	-	-	36
Net remeasurement of loss allowance	(33)	-	-	(33)
Derecognised financial assets	(3)	-	-	(3)
Write off	-	-	-	-
As at 31 December 2022	-	-	-	-

Financial assets at fair value through other comprehensive income by external risk classification

The table below provides information on the credit quality of a financial asset at fair value through other comprehensive income, using the external ratings - Fitch Ratings.

[EUR'000]	2022.	2023.
Government bonds and treasury bills	15,664	14,355
AAA	0	0
AA-	1,331	1,401
A+	0	1,946
BBB+	1,890	0
BBB	12,443	11,006
Corporate bonds	1	1
No rating	1	1
Total	15,665	14,355

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk

Market risk is defined as the risk that the fair value or future cashflows of a financial instrument will fluctuate as a result of changes in market prices. It includes: interest rate risk, foreign exchange risk and positional risk.

The Risk Management Sector calculates: market risk exposure, market risk limits and capital requirements for exposure to market risks.

The Risk Management Sector reports daily to the Treasury Department on the usage of market risk exposure limits and reports to the Asset and Liability Management Committee monthly.

4.1.2.1 Foreign exchange risk

Foreign exchange operations of the Bank are subject to risks due to changes in inter-currency relationships, as well as changes in foreign currency rates in relation to the domestic currency. Exposure to currency risk results from credit, deposit and investment activities, and is controlled for individual currencies and for total assets and liabilities denominated in foreign currencies. When conducting foreign exchange operations, the Bank is subject to risk due to changes in interval relations, as well as changes in foreign currency exchange rates according to the value of the domestic currency.

The operational management of the foreign currency position within the prescribed limits is the responsibility of the Treasury Department, which has the ability to propose measures to eliminate the currency gap through selling one currency for another.

The Risk Management Sector monthly reports to the Asset and Liability Management Committee on foreign exchange risk exposure.

Banks assets in other currencies include cash and deposits with other banks. Regarding other currencies, most of them refer to deposits in US dollar and swiss francs.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.1 Foreign exchange risk (continued)

Foreign exchange risk analysis

The Bank manages currency risk through a range of measures.

[EUR'000] 31.12.2023	HRK	USD	Euro	Other foreign currencies	Total
ASSETS					
Amounts with the Croatian National Bank	-	-	24,625	-	24,625
Cash and accounts with banks	-	836	1,106	744	2,686
Placements with other banks	-	-	-	-	-
Financial assets at fair value through OCI	-	-	14,355	-	14,355
Loans and advances to customers	-	-	30,694	-	30,694
Property and equipment	-	-	1,764	-	1,764
Intangible assets	-	-	379	-	379
Other assets	-	-	265	-	265
TOTAL ASSETS		**836**	**73,188**	**744**	**74,768**
LIABILITIES					
Deposits from customers	-	823	55,700	590	57,113
Deposits and borrowings from banks	-	-	201	-	201
Subordinated debt	-	-	3,000	-	3,000
Provisions for liabilities and charges	-	-	301	-	301
Other liabilities	-	-	2,042	-	2,042
Deferred tax liability	-	-	-	-	-
TOTAL LIABILITIES		**823**	**61,244**	**590**	**62,657**
CURRENCY GAP		**13**	**11,944**	**154**	**12,111**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.1 Foreign exchange risk (continued)

Foreign exchange risk analysis (continued)

[000 EUR]	31.12.2022				
	HRK	EURO linked	Euro	Other foreign currencies	Total
ASSETS					
Amounts with the Croatian National Bank	20,832	-	7,644	-	28,476
Cash and accounts with banks	395	-	1,618	1,752	3,765
Financial assets available for sale	10,182	982	4,501	-	15,655
Loans and advances to customers	635	8,608	28,377	-	37,620
Property and equipment	1,805	-	-	-	1,805
Intangible assets	661	-	-	-	661
Other assets	200		3	-	203
TOTAL ASSETS	**34,710**	**9,590**	**42,143**	**1,752**	**88,195**
LIABILITIES					
Deposits from customers	19,271	-	48,218	1,711	69,200
Deposits and borrowings from banks	277	608	-	-	885
Subordinated debt	-	-	3,000	-	3,000
Provisions for liabilities and charges	233	-	-	-	233
Other liabilities	1,794	1	33	-	1,828
Deferred tax liability	-	-	-	-	-
TOTAL LIABILITIES	**21,575**	**609**	**51,251**	**1,711**	**75,146**
CURRENCY GAP	**13,135**	**8,981**	**(9,108)**	**41**	**13,049**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.1 Foreign exchange risk (continued)

Foreign exchange risk analysis (continued)

The sensitivity analysis includes all foreign currency denominated items and adjustments of foreign currency openness at the year-end. The amount of adjustment is based at 10% change in foreign currency rates against the local currency EUR. A positive number indicates an increase profit in case of the EUR 10% depreciation against the relevant currency. In case of HRK 10% appreciation against the relevant currency, there would be an equal impact but with an opposite sign.

in thousands EUR		31 December 2023
	CHF	OTHER
Open FX position	141	31
Impact +10%	14	3
Impact -10%	(14)	(3)

in thousands EUR		31 December 2022
	CHF	OTHER
Open FX position	23	16
Impact +10%	2	2
Impact -10%	(2)	(2)

As part of this note, in the comparative period, we did not present a sensitivity analysis with regard to the EUR currency, considering the introduction of EUR as the official value from January 1, 2023, since there is no risk of this value changing on the balance sheet date of the previous year.

At the same time, the most significant currency after the domestic value is the USD, therefore it is reported as part of the Foreign Exchange Risk Analysis note. In the sensitivity analysis, the change in the value of the CHF is shown, considering that it has generated the highest effects compared to other foreign currencies.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.2 Price risk

Price risk is the risk of loss arising from changes in the price of a financial instrument. Primary exposure to positional risk comes from shares in debt securities at fair value through other comprehensive income. The Bank manages the risks arising from the change in their fair value by continuously following changes in share price and investment returns and reports to the ALCO. At least once a year Market and Operational Risk department and Risk Control department conducts stress testing on fixed income securities portfolio. Stress testing includes at least the sensitivity analysis and relates to the impact of significant changes in interest rates on portfolio value and profit / loss.

The following tables show sensitivity of Bank portfolio of securities with fixed interest rate (FVOCI) on increase of interest rates and the impact on the overall portfolio in case of a shift in market interest rates by 100 bp.

in thousands EUR		**31 December 2023**
Currency	**Changes in interest rates**	**Sensitivity on portfolio of securities with fixed interest rate (FVOCI)**
EUR	100 bp	(647)

in thousands EUR		**31 December 2022**
Currency	**Changes in interest rates**	**Sensitivity of portfolio of securities with fixed interest rate (FVOCI)**
EUR	100 bp	(370)
HRK	100 bp	(381)

4.1.2.3 Interest rate risk

The Bank's operations are subject to the risk of loss which arises from potential interest rate fluctuations which affect positions in the Bank's records.

In line with prudential interest rate risk management, the Bank defines responsibilities in accordance with generally accepted standards and defined limits for maintaining an acceptable level of economic capital and achieving satisfactory financial results.

For placements with corporate clients, the majority of placements and deposits are initially contracted at variable interest rate in accordance with the Bank's policies, except when, for competitive reasons, fixed interest rates are contracted.

The model for measuring and monitoring interest rate risk exposure measurements includes two basic measures:

1) A measure of the economic value of equity (EVE), that is, the change in the net present value of interest rate sensitive instruments over their remaining term as a result of changes in interest rates. The change in EVE is the change in the net present value of all cash flows arising from assets, liabilities and off-balance sheet items in the Bank's ledger resulting from the change in interest rates, assuming that all positions in the Bank's book expire. The Bank determines the change in economic value using regulatory shock of 200bp and six interest rate shock scenarios.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.3 Interest rate risk (continued)

2) A measure of profit or a measure of change in expected future profitability over a period of time as a result of changes in interest rates. The change in net interest income using the standard parallel shift is calculated by approximating changes in net interest income such that each net position is multiplied by a corresponding change in the interest rate.

Measure of the economic value of capital

The Bank uses eight interest rate shock scenarios to measure the economic value of equity (EVE):

1. regulatory shock + 200 bp
2. regulatory shock - 200 bp
3. parallel shock up
4. parallel shock down
5. steepener shock, short-term rates down and long-term rates up
6. flattener shock, short-term rates up and long-term rates down
7. shock of rising short-term interest rate
8. shock of falling short-term interest rates.

With the entry into force of the Decision on Supervisory Reports of Credit Institutions in March 2021, the Bank fully adjusted the calculation of interest rate risk exposure in the book of positions that are not traded according to provisions of the Decision. With reporting date 31.03.2021. The Bank has started reporting on interest rate risk exposure in accordance with the Decision on Supervisory Reports of Credit Institutions.

Profit measure

A change in net interest income is a short-term measurement of the effect of a change in interest rates on net interest income and net interest margin over a 12-month period. The analysis assumes a parallel shift of the yield curves. The Bank uses a regulatory shock of +/- 200 bb for all currencies to calculate the impact on net interest income. The Bank defines the limits on the results of the standard simulation of net interest income in relation to the planned net interest income for the current year and the planned net interest margin.

The results of the Internal interest rate risk exposure in the banking book are presented to the ALCO Committee quarterly. In the event that internal limits are exceeded, the Market and Operational Risks and Risk Control Department reports to ALCO on the internal limits being exceeded and proposes measures to reduce the Bank's exposure to interest rate risk.

Interest rate risk stress test

The Market and Operational Risk and Risk Control Department performs stress test at least once a year. Given that changes in interest rate can have adverse effects on earnings and their economic value, the Bank performs stress tests taking into account the earnings perspective, i.e. the effect of stress events on the net interest income, and the economic value perspective, i.e. the effect of stress events on the Bank's economic value. The results of stress tests are presented at the meeting of the Banks' Asset and Liability Management Committee.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

4.1.2.3 Interest rate risk (continued)

Interest rate risk stress test (continued)

The following table shows sensitivity of Bank equity (economic value) to reasonable interest rate movements (parallel shift), on condition that all other variables are constant. The sensitivity presented below is prepared based on methodology used to prepare sensitivity report "EVK" as reported to regulator (Croatian National Bank). From 31 March 2021 CNB changed methodology for reporting on exposure on sensitivity of equity value to interest rate movements.

in EUR '000		31 December 2023
	Sensitivity of equity value to interest rate movements	**% of regulatory capital**
Regulatory +200 bp	(442)	(3.6%)
Regulatory -200 bp	263	2.2%

in EUR '000		31 December 2022
	Sensitivity of equity value to interest rate movements	**% of regulatory capital**
Regulatory +200 bp	(338)	(2.3%)
Regulatory -200 bp	202	1.4%

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

Interest rate gap analysis

The following tables present the Bank's financial assets and financial liabilities analysed according to repricing periods determined as the earlier of the remaining contractual maturity and the contractual repricing, expect for demand deposits which are presented in category *from 3 months to 1 year.*

[EUR'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Non-interest bearing*	Total	31 December 2023 Fixed interest rate
FINANCIAL ASSETS								
Amounts with the Croatian National Bank	24,643	-	-	-	-	(17)	**24,625**	24,008
Cash and accounts with banks	119	-	-	-	-	2,567	**2,686**	-
Securities	72	15	2,671	5,124	7,642	(1,170)	**14,354**	15,525
Loans and advances to customers	5,057	9,857	20,008	51	1	(4,280)	**30,694**	126
Other assets	-	-	-	5	-	2,562	**2,567**	5
TOTAL FINANCIAL ASSETS	**29,891**	**9,872**	**22,679**	**5,180**	**7,643**	**(339)**	**74,926**	**39,663**
FINANCIAL LIABILITIES								
Deposits from customers	16,438	2,777	29,120	5,358	2,553	-	**56,246**	40,636
Deposits and borrowings from banks	2	1	18	-	-	-	**21**	-
Subordinated debt	-	-	3,000	-	-	-	**3,000**	3,000
Provisions for liabilities and expenses	-	-	-	-	-	301	**301**	-
Other liabilities	-	-	-	-	-	2,042	**2,042**	-
TOTAL FINANCIAL LIABILITIES	**16,440**	**2,778**	**32,138**	**5,358**	**2,553**	**2,343**	**61,610**	**43,636**
INTEREST GAP	**13,451**	**7,094**	**(9,459)**	**(178)**	**5,090**	**(2,682)**	**13,316**	**(3,973)**

*position includes impairment of income-generating placements, due principal of income-generating placements and accrued interest and interest impairment

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.2 Market risk (continued)

Interest rate gap analysis (continued)

[EUR'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	Non-interest bearing*	Total	31 December 2022 Fixed interest rate
FINANCIAL ASSETS								
Amounts with the Croatian National Bank	28,464	12	-	-	-	-	**28,476**	12
Cash and accounts with banks	1,124	-	-	-	-	2,641	**3,765**	-
Securities	72	15	1,931	8,931	6,490	(1,774)	**15,665**	17,439
Loans and advances to customers	6,294	10,686	25,411	150	15	(4,936)	**37,620**	275
Other assets	12	-	-	-	-	-	**12**	-
TOTAL FINANCIAL ASSETS	**35,966**	**10,713**	**27,342**	**9,081**	**6,505**	**(4,069)**	**85,538**	**17,726**
FINANCIAL LIABILITIES								
Deposits from customers	27,038	6,116	27,242	2,984	4,518	1,301	**69,199**	37,450
Deposits and borrowings from banks	40	40	583	-	-	222	**885**	-
Subordinated debt	-	-	-	3,000	-	-	**3,000**	3,000
Provisions for liabilities and expenses	-	-	-	-	-	234	**234**	-
Other liabilities	-	-	-	-	-	1,828	**1,828**	-
TOTAL FINANCIAL LIABILITIES	**27,078**	**6,156**	**27,825**	**5,984**	**4,518**	**3,585**	**75,146**	**40,450**
INTEREST GAP	**8,888**	**4,557**	**(483)**	**3,097**	**1,987**	**(7,654)**	**10,392**	**(22,724)**

*position includes impairment of income-generating placements, due principal of income-generating placements and accrued interest and interest impairment

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk

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

- inability to settle liabilities as a result of the maturity gap between cash inflow and outflow - structural liquidity risk, and
- risk of being unable to sell or acquire liquid instruments on the market in an appropriate time frame and at a reasonable price - financial instruments liquidity risk.

Liquidity risk management is conducted in compliance with regulatory requirements and is defined by the following internal acts:

- Liquidity Risk Management Policy and Strategy,
- Procedure for stress testing
- Procedure for the Bank's Liquidity Management,
- Plan for Liquidity crisis.

Internal acts are proposed by the Market and Operational Risks and Risk Control Department and approved by the Bank's Management Board. In accordance with changes, the Market and Operational Risks and Risk Control Department proposes revisions of internal acts.

The key purpose of the liquidity policy is to ensure that the Bank operates in a way to achieve an optimal balance between the Bank's safety and shareholders return on investment. The framework for appropriate liquidity risk management comprises the following: liquidity management strategy approved by the Management Board within budget and strategic plans; efficient supervision by the Asset and Liability Management Committee and the Management Board; clearly defined responsibilities and operations in line with agreed limits; management of assets and liabilities by matching their maturities; an established evaluation system of all current and future inflows and outflows; liabilities structure management, specifically in monitoring the concentration of large deposits; sustained development of liquidity stress tests; assessment of access to financial markets and available funds under usual and stressed conditions; and a crisis plan.

As part of its business activities the Bank monitors liquidity risk and complies with relevant regulations, the following measures are part of liquidity risk management:

- minimum reserve,
- liquidity coverage ratio (proportion of highly liquid assets held by the Bank)
- net stable funding ratio.

The purpose of managing liquidity funds is the compliance with the regulatory minimum by maintaining the minimum cost of liquidity funds.

The Bank uses the following models for liquidity risk measurement:

- financial and structural indicators,
- deposit concentration,
- cash flow notice and projection system, and
- liquidity stress tests.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

The Bank raises funds using a broad range of instruments including deposits, borrowings, subordinated debt and share capital. The Bank continuously assesses its liquidity risk by identifying and monitoring changes in the level of funding required to achieve business goals and strategic targets. Diverse funds enable flexibility, decrease dependence on a single source of funding and enable straightforward management of financing costs.

Liquidity stress test

Liquidity stress tests are performed based on the analysis of different scenarios, i.e. the assessment of effects of simultaneous changes in several different factors of risk on the financial position of the Bank in clearly defined stress circumstances. In order to prepare for a possible impact on liquidity, the Bank performs liquidity stress tests adapted to business size and characteristics, strategic goals and plans, the internal Bank's organization and its environment, to ensure sufficient liquidity funding. The aim of the liquidity stress test is to recognise a situation and to prepare the Bank's relevant functions for a prompt reaction in the case of a liquidity crisis. The development of the liquidity stress test represents the Bank's internal policy and good practice for liquidity management. The stress test relates to the change in value of certain parameters that have an impact on the financial and liquidity position of the Bank and determining the effects of said impact of these parameters on the entire business.

The stress scenario is arbitrarily selected and approved by the Market and Operational Risks and Risk Control Department. Two scenarios are selected, at a minimum, one including the Bank's specific factors and the other including market factors. Different combinations of the factors are possible as well.

The selection of scenarios is usually affected by:

- current market movements;
- other movements historically significant for the Bank's liquidity;
- future predictions based on available information significant for the Bank's liquidity.

Upon selection of the stress scenario, the Treasury Department analyses the scenario or performs the sensitivity analysis, depending on whether one or more factors on the financial position of the Bank are analysed. The Market and Operational Risks and Risk Control Department and the Treasury Sector report the results of the stress tests to the Asset and Liability Management Committee.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

Maturity analysis

The tables below present the assets and liabilities of the Bank based on the remaining contractual maturity as of 31st December 2023 and 31st December 2022. Despite the maturity mismatch of assets and liabilities, the expected cash flows on a particular financial asset and liability differ significantly from the contractual cash flows. Obligatory reserve is presented in the category up to one month and not according to the maturity of the related liabilities. The Bank expects that demand deposits will not significantly oscillate and will not be withdrawn immediately. Assets and liabilities presented below are based on the Bank's carrying values.

[EUR'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	31 December 2023 Total
FINANCIAL ASSETS						
Amounts with the Croatian National Bank	24,625	-	-	-	-	**24,625**
Cash and accounts with banks	2,686	-	-	-	-	**2,686**
Securities	72	15	2,598	1	11,669	**14,355**
Loans and advances to customers	2,716	294	4,109	12,441	11,134	**30,694**
Other assets	104	38	41	-	82	**265**
TOTAL FINANCIAL ASSETS	**30,203**	**347**	**6,748**	**12,442**	**22,885**	**72,624**
FINANCIAL LIABILITIES						
Deposits from customers	20,074	2,925	30,801	3,090	222	**57,112**
Deposits and borrowings from banks	182	1	6	12	-	**201**
Subordinated debt	-	-	3,000	-	-	**3,000**
Provisions for liabilities and expenses	9	176	94	-	22	**301**
Other liabilities	363	77	325	427	851	**2,043**
TOTAL FINANCIAL LIABILITIES	**20,628**	**3,179**	**34,226**	**3,529**	**1,095**	**62,657**
MATURITY GAP	**9,575**	**(2,832)**	**(27,478)**	**8,913**	**21,790**	**9,968**
OFF- BALANCE SHEET						
Guarantees	50	-	239	-	-	289
TOTAL OFF-BALANCE SHEET	**50**	**-**	**239**	**-**	**-**	**289**

Although there is significant presentational liquidity gap for the period up to one year, the Bank does not expects that demand deposits to be withdrawn immediately. Furthermore, the Bank can adjust the liquidity position by selling financial assets with maturity above 1 year.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

[EUR'000]	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 3 years	Over 3 years	31. December 2022 Total
FINANCIAL ASSETS						
Amounts with the Croatian National Bank	28,476	-	-	-	-	**28,476**
Cash and accounts with banks	3,765	-	-	-		**3,765**
Securities	72	15	1,918	2,530	11,129	**15,664**
Loans and advances to customers	201	1,217	16,631	10,512	9,059	**37,620**
Other assets	43	29	35	-	97	**204**
TOTAL FINANCIAL ASSETS	**32,557**	**1,261**	**18,584**	**13,042**	**20,285**	**85,729**
FINANCIAL LIABILITIES						
Deposits from customers	31,711	6,549	27,866	981	2,093	**69,200**
Deposits and borrowings from banks	287	38	144	243	174	**886**
Subordinated debt	-	-	-	3,000	-	**3,000**
Provisions for liabilities and expenses	1	175	15	21	22	**234**
Other liabilities	236	42	45	90	1,413	**1,826**
TOTAL FINANCIAL LIABILITIES	**32,235**	**6,804**	**28,070**	**4,335**	**3,702**	**75,146**
MATURITY GAP	**322**	**(5,543)**	**(9,486)**	**8,707**	**16,583**	**10,583**
OFF- BALANCE SHEET						
Guarantees	50	-	103	23	-	176
Overdrafts	-	-	532	-	-	532
TOTAL OFF-BALANCE SHEET	**50**	**-**	**635**	**23**	**-**	**708**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.3 Liquidity risk (continued)

Analysis of undiscounted cash flows of financial liabilities by remaining contracted amounts.

31 December 2023	Less than 1 month	1 – 3 months	3 – 12 months	1 – 3 years	Over 3 years	Undiscounted	Carrying value
Deposits to customers	20,074	2,926	30,821	3,108	225	57,155	57,113
Deposits and borrowings from banks	182	1	6	12	0	201	201
Subordinated debt	0	0	3,073	0	0	3,073	3,000
Provisions for liabilities and charges	9	175	94	0	22	301	301
Other liabilities	367	86	360	490	915	2,218	2,042
Total undiscounted financial liabilities	**20,633**	**3,189**	**34,354**	**3,610**	**1,162**	**62,948**	**62,657**
Off Balance-sheet	**50**	**0**	**239**	**0**	**0**	**289**	**289**

31 December 2022	Less than 1 month	1 – 3 months	3 – 12 months	1 – 3 years	Over 3 years	Undiscounted	Carrying value
Deposits to customers	31,711	6,549	27,.884	987	2,123	69,254	69,200
Deposits and borrowings from banks	287	38	144	257	191	917	885
Subordinated debt	0	0	0	3,224	0	3,224	3,000
Provisions for liabilities and charges	1	175	15	21	22	234	233
Other liabilities	261	82	251	367	987	1,950	1,828
Total undiscounted financial liabilities	**32,260**	**6,843**	**28,294**	**4,632**	**3,323**	**75,579**	**75,146**
Off Balance-sheet	**50**	**0**	**634**	**23**	**0**	**707**	**707**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.4 Operational risk

Operational risk is defined as the risk of loss due to inadequate or incorrect processes, human or internal system errors or events caused by external factors (natural disasters, fire, flood, attack, changes of legislation, embezzlement).

Operational risk management is conducted in compliance with regulatory requirements and is defined by the following internal acts:

- Policy on operational risk management
- Procedure on operational risk management
- The methodology for operational risk management information system
- Directive on reporting of operational losses and operational risks

When measuring operational risk exposure, based on the consequences of a risk event, the Bank distinguishes the following:
Loss from operational risk, which represents operational losses affecting the balance sheet and assuming the known amount of losses in the Bank's records.
Significant operational risk, which is present in business processes and has not resulted in operational losses, but there is a possibility of future operational losses resulting from it.

Operational risk assessment is performed through Self Risk Assessment for every business process of the Bank. Self Risk Assessment is performed on a yearly basis for every business process of the Bank using event-based questionnaires prepared in accordance with Basel guidelines. Based on collected data, each reported event which could result in operational risk is quantified and classified into a risk category. For events for which risks are high and very high, the business processes owners, in coordination with the Market and Operational Risks and Risk Control Department, propose actions for reducing exposure to operational risk by using methods for reduction of effects, i.e. damages and the probability of occurrence or by transferring the risk to a counterparty. The Market and Operational Risks and Risk Control Department reports the results of the Self Risk Assessment to the Management Board once a year.

The Market and Operational Risks and Risk Control Department reports to the Management Board quarterly on recorded operational losses, i.e. events which resulted in losses recorded in the Bank's records due to exposure to operational risk. The report on operational losses contains, at a minimum, data on amounts of losses, recovered amounts, unrecovered amounts, operational losses per type of event and cause, and share of different organisational units of the Bank in operational losses.

4.1.5 Environmental risk

Environmental risk means the risk of losses resulting from any negative financial impact on the Bank due to the current or future impacts of environmental factors on counterparties or the Bank's invested assets, including factors related to the transition towards the following environmental goals: mitigation of climate change, adaptation to climate change changes, sustainable use and protection of water and marine resources, transition to a circular economy, prevention and control of pollution and protection and restoration of biodiversity and ecosystems. Environmental risk refers to both climate and environmental risk, and includes physical risk (resulting from the current or future impacts of the physical effects of environmental factors) and transition risk (resulting from the current or future impacts of the transition of business activities and sectors on an environmentally sustainable economy, to other contracting parties or invested assets of the credit institution).

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.5 Environmental risk

Environmental risk management is carried out in accordance with the recommendations of the Croatian National Bank and good practices of the European Central Bank, as well as other, so far adopted, European regulations on the basis of which the following internal acts were adopted:

- Environmental risk management policy and strategy

- Environmental risk management methodology

- Procedure for calculating the carbon footprint.

The Bank has defined a procedure for assessing the significance of environmental risks (physical and transition) in such a way that the Bank assesses the various drivers of these risks and determines through which transmission channels they affect the existing categories of prudential risks. The Bank carried out the above assessment of the significance of the impact of environmental risks on the existing categories of prudential risks in the short, medium and long term for all significant business areas of the Bank. The internal acts stipulate that such an assessment is carried out once a year, and the results are reported to the Bank's Management.

4.1.6 Capital adequacy

The basic parameters of the capital management policy are given by the Credit Institutions Act and the EU Directive (2013/36/EU, 2019/878/EU).

The basic objectives of capital management mean ensuring the following:
- the going concern assumption and
- meeting the regulatory and capital adequacy requirements

The total capital ratio as at 31 December 2023 was set at a minimum of 8%, while keeping a protective layer for the preservation of ordinary capital in the amount of 2.5%, a protective layer for structural system risk of 1.5% and countercyclical protective layer of capital of 1.00%.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.5 Capital adequacy (continued)

Total capital is determined as a category of capital that is managed by the Bank and must be at least at a level that ensures the adequacy of capital sufficient to cover the capital requirements and to ensure minimum prescribed capital adequacy ratio. Total capital is calculated in accordance with the prescribed subordinate acts of CNB and Regulation (EU) no. 575/2013.

For the purpose of calculating capital adequacy, in 2018 the Bank has decided to adopt a "static approach" that allows the Bank to gradually incorporate the effects of the first-time adoption of the Decision on classification, which partially incorporates the effects of IFRS 9, on the calculation of regulatory capital by 5% in 2018, 15% in 2019, 30% in 2020, 50% in 2021 and 75% in 2022. From 2022. is 100.00% included.

(EUR 000) CAPITAL ADEQUACY	31 December 2022	31 December 2023
TIER 1 CAPITAL	**13,632**	**11,838**
TIER 1 CAPITAL – COMMON EQUITY	**13,632**	**11,838**
Capital instruments eligible as CET1 Capital	45,964	45,964
Accumulated loss	(30,911)	(32,452)
Accumulated other comprehensive losses	(2,507)	(1,754)
Other reserves	503	503
(-) Other intangible assets	(661)	(424)
Other transitional adjustments to CET 1 Capital	1,245	-
TIER 1 CAPITAL – ADDITIONAL	**-**	**-**
TIER 2 CAPITAL	**946**	**346**
TOTAL REGULATORY CAPITAL	**14,578**	**12,184**
Risk weighted assets		
Credit risk weighted assets	42,237	34,366
Exposure for operational risk	6,984	6,996
Exposure for FX risk	-	-
TOTAL RISK WEIGHTED ASSETS	**49,221**	**41,362**
COMMON EQUITY TIER 1 CAPITAL RATIO	**27.70%**	**28.62%**
TIER 1 CAPITAL RATIO	**27.70%**	**28.62%**
TOTAL CAPITAL RATIO	**29.62%**	**29.46%**

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.6 Concentration risk

Concentration risk is every individual, direct or indirect exposure toward one counterparty or group of related parties or group of exposures connected by common risk factors such as industry, geographical area, operations or goods, i.e. application of techniques for credit risk reduction, which can cause such losses which could jeopardize the Bank's going concern.
The Bank analyses and reports on concentration risk present both on the asset side of the balance sheet, i.e. loan portfolio, as well as on the equity and liabilities side of the balance sheet, i.e. source of funds.

The Bank analyses concentration risk on the basis of each individual, direct or indirect exposure toward one counterparty or group of related parties and has regulated the identification of related parties by internal acts, determining the following:

1) control, i.e. relationship between the parent company and its subsidiary or similar relationship between any legal or natural person and the company, and
2) economical and financial ties.

This relationship is established mainly on the basis of information/data received from the client, but also by checking other available sources. Groups of related parties are formed and reported by the Credit Risk Management Department within the Risk Management Sector. Groups of related parties are entered into the Registry of Related Parties as the comprehensive database for related parties.

The Bank actively manages the diversification of the loan portfolio and limits the concentration limits, thus adjusting the structure and quality of the loan portfolio or reducing the credit risk.

For the purpose of defining the Bank's exposure to risk, limits for certain types of exposure are determined, depending on the geographical location of the debtor, the activity, the type of placements and the method of repayment of the placements.

In order to maintain a diversified and stable base of financing and to avoid becoming overly dependent on only certain sources, concentration is monitored for the following:

- deposits from companies and other financial institutions: 10 biggest deponents with term deposits in relation to total deposits from legal persons and financial institutions; 10 biggest deponents in relation to total deposits
- retail deposits: 10 biggest deponents from the retail sector in relation to total retail deposits and 100 biggest deponents from the retail sector in relation to total deposits.

The Market and Operational Risks and Risk Control Department reports the concentration risk to Management Board, Credit Committee and the Asset and Liability Management Committee on a monthly/quarterly basis.

Notes to the financial statements (continued)

4. RISK MANAGEMENT (continued)

4.1 Internal assessment of risk of the Bank's operations (continued)

4.1.6 Concentration risk (continued)

Concentration risk is also monitored on a sector basis, as shown in the following table where the numbers are presented on a gross basis:

GROSS EXPOSURE (EUR)	2022	%	2023	%
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	3,290	7.74%	4,246	11.58%
FINANCIAL AND INSURANCE ACTIVITIES	14,057	33.06%	11,985	32.68%
CONSTRUCTION	5,036	11.84%	2,522	6.88%
OTHER SERVICE ACTIVITIES	11	0.03%	4,535	12.36%
AGRICULTURE, FORESTRY AND FISHING	280	0.66%	170	0.46%
REAL ESTATE ACTIVITIES	8,698	20.46%	3,060	8.34%
MANUFACTURING	9,787	23.02%	8,953	24.41%
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	112	0.26%	306	0.84%
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	793	1.87%	525	1.43%
RETAIL	453	1.07%	373	1.02%
TOTAL	42,517	100.00%	36,675	100.00%

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The management of the Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in the existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty.

The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. Significant judgments relating to allowance for credit losses are particularly complex in the current uncertain environment.

Significant judgments made in determining the most appropriate methodology for estimating the fair value of foreclosed assets is also described below. This and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Classification of financial assets

Business Model Assessment

The Bank determines its business models based on the objective under which its portfolios of financial assets are managed. In determining its business models, the Bank considers the following:

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

Solely Payments of Principal and Interest Test (SPPI test)

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

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

Impairment of financial assets

Significant Increase in Credit Risk

The basic criteria for assessing significant increases in credit risk are days past due. The Bank considers that the credit risk has increased considerably after the initial recognition if any of the following occurs:

- at the reporting date the borrower is more than 30 days past due (based on materiality threshold), but is still within a period not exceeding 90 days and
- in the last 3 months the borrower was past due for more than 30 days (based on materiality threshold) but did not exceed 90 days past due.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment of financial assets (continued)

Significant Increase in Credit Risk (continued)

In addition to days past due, the Bank uses qualitative indicators to determine a significant increase in credit risk such as a breach in contractual financial covenants, additional borrowing or third party liability, loss of license, concession and similar permits, which may negatively affect client business etc

Definition of default

The Bank considers that default status have occurred in the following conditions and refers to the reclassification of exposures to the minimum B1 risk category.

- the debtor has failed to fulfil its overdue obligation for more than 90 days (based on materiality threshold) under any significant credit obligation to the credit institution, its parent company or any of its subsidiaries

- the Bank considers it probable that the debtor will not fully meet its obligations to the Bank, its parent company or any of its subsidiaries without considering the possibility of collateral collection. In this regard, the Bank prescribes indicators for large portfolio that, in addition to the day of delay, indicate default status. These are indicators of a qualitative and quantitative nature closely related to the client's business.

Measurement of Expected Credit Loss

For exposures classified as Stage 1 and Stage 2, expected credit loss is calculated as the product of 12-month PD multiplied with LGD and EAD. Lifetime ECL is calculated as a product of the lifetime PD and LGD and the amount of exposure to credit risk at the reporting date. Exposure at default (EAD) is the gross book value of exposure at the reporting date

Assets that are classified in business model ATR (amortized cost), and refers to the corporate loan portfolio is divided into 4 homogeneous groups (pools) by product type, while the retail portfolio constitutes of one separate homogeneous group (pool). Probability of default (PD) provides probability that the borrower will not be able to meet its obligations. For the purpose of estimating 12M ECLs and LT ECLs for the ATR portfolio, models based on historical data are used, with conservative margin and adjustments for future macroeconomic developments.

The Bank calculates the probability of default over a specified period of time: one year PD12 - 12 months or lifetime PD - for the duration of the Life Time PD for each homogeneous group, based on the calculated historical default rate (DR) at the loan level. The calculation of the historical DR is calculated as the ratio of the sum of the placement parties that had the status of default and the sum of the total number of parties in the same period.

Due to the small amount of data and the oscillations between the maximum and minimum historically realized values in calculating PD, the calculated DR is increased by the margin of conservatism. The conservative margin is calculated as the standard deviation on the calculated DRs for each period included in the calculation of the DR average. The calculated standard deviation represents the percentage change on the calculated DR. The Bank does not currently have sufficient qualitative DR historical data for more than 5 years and the calculation of LFPD after 5 years is the result of extrapolation based on the calculated PD (from 12M to 5Y).

The Bank monitors macroeconomic developments primarily through the CNB's publications and the Macroeconomic publication forecasts and trends. The main macroeconomic indicators monitored are GDP, consumer price index and employment. For the purpose of adjusting the calculated PD to macroeconomic expectations, it is taken into account only the movement of GDP as the most significant macroeconomic variables. PD is assessed in the baseline and negative and optimistic scenarios whereby each scenario is given a certain weight of significance, based on expert assessment taking into account the likelihood of a recession, rating outlook credit rating agency and the time evolution of the probability weights of each scenarios.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment of financial assets (continued)

Measurement of Expected Credit Loss (continued)

To determine the amount of PD (probability of default) for exposures to central governments, central banks and financial institutions, ie exposures that have the rating of an external institution for credit risk assessment, the Bank uses data available on the website Moody's Investor Service - Annual Default Study Alphanumeric Rating Migration Rates).

LGD (Loss Given Default) represents a loss due to default status. Accurate LGD estimates of "default" bank claims are important for determining the required loan loss reserves, further for calculating appropriate capital, and determining the fair price of loans.

For exposures classified in corporate homogeneous pools with an exposure which exceeds HRK 1 million, the Bank calculates an individual LGD using Scenario 1, Scenario 2 and Scenario 3. For exposures less than 1 million, the Bank applies a unique percentage of LGD amounting to 45% in accordance with the Basel Committee on Banking Supervision Discussion paper Regulatory treatment of accounting provisions. The Bank uses 3 scenarios when calculating individual LGDs, with methodology depending on the type of exposure; i) exposures granted on the basis of the Debtor / Debtors / Guarantors' cash flow, excluding contractual covenants specifying the minimum level of EBITDA or the maximum level of indebtedness for the duration of the contractual relationship; and ii) exposures representing project and real estate financing. Each scenario has a specific weighting assigned to it to determine the final LGD. The weighting assigned to each scenario is the result of the proportion of truly closed default exposures in each of the three scenarios (taking into account closed default exposures). For exposures related to syndicated loans with a parent company, the Bank uses the calculation of LGD from the parent company.

For the purposes of calculating the LGD for a homogeneous population group, the Bank divided the portfolio into secured exposures and unsecured exposures. The Bank calculates LGDs at the individual level for all secured exposures, regardless of the level of exposure, taking into account only the recoverability from residential property. For unsecured exposures, the Bank uses a single LGD percentage of 50%.

Off-balance sheet items are classified into the appropriate risk categories on the basis of which the credit institution is exposed to credit risk due to the inability to repay outflows that may occur or that arise from the payment of assumed off-balance sheet liabilities. In assessing provisions for off-balance sheet items, the Bank applies the conversion factor 1 prescribed by the Decision on the classification of exposures to risk categories and the method of determining credit losses. For all performing off-balance sheet exposures the Bank recognise impairment losses at a rate of 0.80% of off-balance sheet credit risk exposure. For off-balance sheet exposures arising from overdrafts and unused loans, the Bank applies the calculated PD and LGD as well as the balance sheet portion of exposures.

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

The Bank's management believes that the recognised expected credit losses and provisions are sufficient.

Valuation of foreclosed assets

The Bank occasionally acquires land and properties in settlement of certain loans and advances. Real estate is stated at the lower of the carrying value of the related loans and advances at the date of settlement and the net realisable value of such assets. When assessing the valuation of foreclosed assets, the Bank engages certified independent valuators, and subsequently reviews them and compares them with the carrying amount. Gains or losses on disposal are recognised in the income statement.

Notes to the financial statements (continued)

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Provisions for court cases

Management Board believes that court settlement provisions are sufficient at the reporting date. The Bank conducts an individual assessment of all legal disputes against the Bank. The initial assessment is carried out by the Department of Legal Affairs of the Bank, and the final decision on the risk group and the amount of the provision is made by the Management Board

At 31 December 2023 a total of 6 court proceedings against the Bank were conducted.

In 2 civil cases of the highest value, the first-instance judgment was passed in favor of the Bank..

All disputes were classified in risk category A.

As explained in Note 17, the Bank provided EUR 21.6 thousand (2022: EUR 20.5 thousand), for principal and interest for liabilities from court cases, which management estimates to be sufficient. These amounts represent the best estimate of the Bank for losses in court disputes, although the actual loss on the Bank's court litigation may be significantly different.

Notes to the financial statements (continued)

6. AMOUNTS WITH THE CROATIAN NATIONAL BANK

[EUR'000]	31 December 2022	31 December 2023
Giro accounts with CNB	**28,476**	**634**
in domestic currency	28,476	634
In foreign currency	-	-
ECL allowance	-	(0)
Obligatory reserve with CNB	**-**	**23,991**
in domestic currency	-	24,008
In foreign currency	-	-
ECL allowance	-	(17)
TOTAL	**28,476**	**24,625**

Movements in loss allowance (Stage 1) of amounts with the CNB are presented below:

[EUR'000]	2021	2023
As at 1 January	**60**	**-**
Net (reversal)/charge of impairment losses	(60)	17
As at 31 December	**-**	**17**

With the transition to the euro as the official currency in the Republic of Croatia, some instruments of the CNB's monetary policy ceased to be valid, including the maintenance and allocation of mandatory reserves. From January 1, 2023, the European Central Bank (ESB) requires credit institutions established in the euro area to keep minimum reserves in accounts with their national central banks (NSB). Minimum reserves are calculated on the liabilities of credit institutions towards the non-banking sector, i.e. the population, companies and the state. Liabilities to other Eurosystem reserve holders, the ECB and Eurosystem NCBs are excluded. A reserve rate of 1% is set for liabilities with a maturity of up to two years, while a reserve rate of 0% applies to liabilities with a longer maturity and repo contracts.

The NSB calculates interest on the held minimum reserve funds, at an interest rate that in 2023 was in the range of 2.00% - 3.75%, depending on the decisions of the ECB.

Notes to the financial statements (continued)

7. CASH AND ACCOUNTS WITH OTHER BANKS

[EUR'000]	31 December 2022	31 December 2023
Cash in hand	**931**	**1,040**
In domestic currency	891	988
in foreign currency	40	52
Giro accounts with other banks	**2,834**	**1,646**
with foreign banks	2,251	1,389
ECL allowance	(11)	(1)
with domestic banks	596	258
ECL allowance	(2)	(0)
TOTAL	**3,765**	**2,686**

Movements in loss allowance (Stage 1) of Giro accounts with other banks are presented below:

[EUR'000]	2022	2023
As at 1 January	**12**	**13**
Net reversal of impairment loss	1	(12)
As at 31 December	**13**	**1**

Notes to the financial statements (continued)

8. FINANCIAL ASSETS - SECURITIES

[EUR'000] SECURITIES AT FAIR VALUE THROUGH OCI	31 December 2022	31 December 2023
Financial assets at fair value through OCI	**15,558**	**14,251**
Bonds of the Croatian Ministry of Finance	12,369	10,935
Foreign government bonds	3,188	3,315
Foreign corporate bonds	1	1
Of which:		
- listed	15,558	14,251
- not listed	-	-
Accrued interest	**107**	**104**
not past due	107	104
ECL allowance	-	-
TOTAL	**15,665**	**14,355**

9. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers at amortised cost

[EUR'000]	31 December 2022	31 December 2023
Gross loans	**42,388**	**36,369**
retail	403	310
corporate	41,985	36,059
Interest receivables	**239**	**361**
ECL allowance	**(4,897)**	**(5,981)**
Gross loans	(4,824)	(5,851)
Interest receivables	(73)	(130)
Deferred income from fees	**(110)**	**(55)**
TOTAL	**37,620**	**30,694**

Notes to the financial statements (continued)

10. PROPERTY AND EQUIPMENT

2023 [EUR'000]	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
At 1 January 2023	**2,018**	**1,043**	**604**	**208**	**9**	**3,882**
Additions	1,738	-	-	6	14	1,758
Write-offs and disposals	(1,834)	(196)	(11)	(15)	-	(2,056)
Transfer to use	-	8	7	1	(16)	-
At 31 December 2023	**1,922**	**855**	**600**	**200**	**7**	**3,584**
Accumulated depreciation						
At 1 January 2023	538	986	485	68	-	2,077
Charge for the year	284	17	25	25	-	351
Write-offs and disposals	(393)	(195)	(10)	(10)	-	(608)
At 31 December 2023	**429**	**808**	**500**	**83**	**-**	**1,820**
Net carrying value	**1,493**	**47**	**100**	**117**	**7**	**1,764**

2022 [HRK'000]	Land and buildings	IT equipment	Office furniture and equipment	Motor vehicles and other	Assets under construction	Total
Cost						
At 1 January 2022	**2,049**	**998**	**742**	**136**	**10**	**3,935**
Additions	23	-	-	63	100	186
Write-offs and disposals	(54)	-	(140)	(45)	-	(239)
Transfer to use	-	45	2	54	(101)	-
At 31 December 2022	**2,018**	**1,043**	**604**	**208**	**9**	**3,882**
Accumulated depreciation						
At 1 January 2022	308	970	587	92	-	1,957
Charge for the year	284	16	27	20	-	347
Write-offs and disposals	(54)	-	(129)	(44)	-	(227)
At 31 December 2022	**538**	**986**	**485**	**68**	**-**	**2,077**
Net carrying value	**1,480**	**57**	**119**	**140**	**9**	**1,805**

As at 31 December, Property and equipment include Right-of-use assets in the amount of EUR 1,524 thousand (2022: EUR 1,826 thousand) relating to leased office premises and motor vehicles.

Notes to the financial statements (continued)

10. PROPERTY AND EQUIPMENT (continued)

Leases as lessee

The Bank leases a number of office premises. The leases typically run for a period of 1 to 10 years with the option to renew the lease after that time. The Bank also lease IT equipment. These leases are short term and/or leases of low value items. The Bank have elected not to recognize Right of use assets and Lease liabilities for these leases.

Information about leases for which the Bank is a Lessee is presented below:

Right-of-use

In EUR '000	Land and buildings	Motor vehicles	Cloud	Total
Balance at 1 January 2022	**1,682**	**17**	**-**	**1,699**
Depreciation charge of the year	(264)	(16)	-	(280)
Additions	23	64	-	87
Disposals	-	-	-	-
Balance at 31 December 2022	**1,441**	**65**	**-**	**1,506**
Balance at 1 January 2023	**1,441**	**65**	**-**	**1,506**
Depreciation charge of the year	(264)	(14)	(128)	(406)
Additions	297	1	255	553
Disposals	(2)	-	-	(2)
Balance at 31 December 2023	**1,472**	**52**	**127**	**1,651**

Maturity analysis - Contractual undiscounted cash flows

In EUR '000	Land and buildings	Motor vehicles	Cloud	Total
Balance at 31 December 2022	**1,575**	**59**	**-**	**1,634**
Less than one year	266	14	-	280
Between one and two years	170	14	-	184
Between two and three year	170	13	-	183
Between three and four year	170	12	-	182
Between four and five years	170	6	-	176
More than five years	629	0	-	629
Balance at 31 December 2023	**1,664**	**46**	**131**	**1,841**
Less than one year	291	15	131	**437**
Between one and two years	271	13	-	**284**
Between two and three year	193	12	-	**205**
Between three and four year	193	6	-	**199**
Between four and five years	193	-	-	**193**
More than five years	523	-	-	**523**

Amounts recognised in profit or loss

In EUR '000	Land and buildings	Motor vehicles	Cloud	Total
Interest on lease liabilities	33	1	-	**34**
Expenses relating to short-term leases	-	-	-	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	16	-		**16**
Total 2022	**49**	**1**	-	**50**
Interest on lease liabilities	49	2	5	**56**
Expenses relating to short-term leases	-	-	-	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	17	-	-	**17**
Total 2023	**66**	**2**	**5**	**73**

Notes to the financial statements (continued)

11. INTANGIBLE ASSETS

2023 [EUR'000]	Internally generated software	Leasehold improvements	Licenses	Assets under construction	Total
Cost					
At 1 January 2023	2,601	24	755	-	3,380
Additions	-	-	255	-	255
Transfer into use	-	-	-	-	-
Write-offs	-	-	-	-	-
At 31 December 2023	2,601	24	1,010	-	3,635
Accumulated amortisation					
At 1 January 2023	1,977	3	739	-	2,719
Charge for the year	245	2	131	-	378
Write-offs	-	-	-	-	-
At 31 December 2023	2,222	5	870	-	3,097
Net carrying value	379	19	140	-	538

2022 [EUR'000]	Internally generated software	Leasehold improvements	Licenses	Assets under construction	Total
Cost					
At 1 January 2022	2,601	24	741	-	3,366
Additions	-	-	-	16	16
Transfer into use	-	-	16	(16)	-
Write-offs	-	-	(2)	-	(2)
At 31 December 2022	2,601	24	755	-	3,380
Accumulated amortisation					
At 1 January 2022	1,732	1	736	-	2,469
Charge for the year	245	2	5	-	252
Write-offs	-	-	(2)	-	(2)
At 31 December 2022	1,977	3	739	-	2,719
Net carrying value	624	21	16	-	661

Notes to the financial statements (continued)

12. OTHER ASSETS

[EUR'000] OTHER ASSETS	31 December 2022	31 December 2023
Other assets	**242**	**304**
Fees receivable	9	49
Prepaid expenses	31	38
Other receivables	133	163
Foreclosed assets	69	54
Impairment allowance	**(39)**	**(39)**
TOTAL	**203**	**265**

a) *Foreclosed assets*

Foreclosed assets refer to land and real estate acquired through pledge for non-performing loans to customers. They are initial measured at a lower of net carrying amount of loans and advances balance or its fair value at the date of repossession. Subsequently their value is adjusted if there is a decrease in underlying valuation of assets. Foreclosed assets are presented net of impairment allowance.

b) *Movements in impairment allowance for other assets*

[EUR'000]	2022	2023
At 1 January	**372**	**39**
Increase/decrease	-	-
Write-offs	(333)	-
At 31 December	**39**	**39**

Notes to the financial statements (continued)

13. DEPOSITS FROM CUSTOMERS

[EUR'000]	31 December 2022	31 December 2023
Demand deposits	**27,488**	**18,234**
retail	8,095	4,544
in domestic currency	*7,141*	*3,682*
in foreign currency	*953*	*862*
corporate	19,393	13,690
in domestic currency	*19,387*	*13,684*
in foreign currency	*6*	*7*
Term deposits	**41,350**	**38,330**
retail	38,848	36,444
in domestic currency	*38,099*	*35,900*
in foreign currency	749	*544*
corporate	2,502	1,886
in domestic currency	*2,502*	*1,886*
in foreign currency	-	-
Accrued interest	**362**	**549**
TOTAL	**69,200**	**57,113**

14. DEPOSITS AND BORROWINGS FROM BANKS

[EUR '000]	31 December 2022	31 December 2023
Short-term	**248**	**180**
in domestic currency	*248*	*180*
in foreign currency	-	-
Long-term	**636**	**21**
in domestic currency	*636*	*21*
in foreign currency	-	-
Of which		
Borrowings	*636*	*21*
Deposits	*247*	*180*
Accrued interest	**2**	**-**
TOTAL	**885**	**201**

Borrowings consist of loans received from the Croatian Bank for Reconstruction and Development ("HBOR") in the amount of EUR 21 thousand (31 December 2022: EUR 0.6 million) and short-term borrowings from related party.

In accordance with the overall agreement, borrowings from HBOR are used to fund loans to customers for eligible construction and development projects at preferential interest rates.

Notes to the financial statements (continued)

15. SUBORDINATED DEBT

[EUR'000]	31 December 2022	31 December 2023
Subordinated debt	**3,000**	**3,000**
in domestic currency	3,000	3,000
in foreign currency	-	-
Accrued interest	-	-
TOTAL	**3,000**	**3,000**

In July 2014 subordinated debt contract was signed, based on which J&T Banka, Prague, has made payment in the amount of EUR 3 million, at an interest rate of Euribor 12M + 7% per annum for a period of 10 year. In September 2020 interest rate decreased to 3.74% fixed.

During 2016, a new subordinated debt contract was signed, based on which J&T Bank Prague provided additional new funds of EUR 2.7 million at an interest rate of 8.8% for a period of seven years. In September 2020 interest rate decreased to 3.79% fixed.

In April 2022, the Bank terminated the subordinated debt agreement for EUR 2.7 million, and the deposit funds were returned to J&T Bank, Prague, with the date of inclusion of the capital increase in the Bank's regular capital in the amount of EUR 2.7 million which was carried out by payment in money by the majority owner of the Bank - J&T banka a.s. Prague, based on the Management Board's Decision on increasing the Bank's share capital (authorized capital) and issuing new shares from 16 March, 2022 to which the Supervisory Board gave its consent on 18 March, 2022.

Subordinated debt is included in the additional capital of the Bank and is amortised for regulatory purposes in their final five years before maturity.

Subordinated debt is subordinated to all other liabilities of the Bank.

16. PROVISIONS FOR LIABILITIES AND CHARGES

[EUR'000]	31 December 2022	31 December 2023
Provisions for legal disputes	21	22
Provisions for termination benefits and similar liabilities to employees	175	175
Provisions for contingent liabilities from credit risk	16	82
Provisions for contingent liabilities from other sources to individuals	22	22
TOTAL	**233**	**301**

Notes to the financial statements (continued)

17. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The movement in provisions for liabilities and charges is presented below:

[EUR'000]	2022	2023
As at 1 January	**403**	**233**
Increase/decrease in the income statement		
- Increase in provisions for legal disputes (Note 28b)	1	1
- Provisions for termination benefits and similar liabilities to employees (Note 28b)	175	175
- Decrease in provisions for contingent liabilities (Note 28a)	(20)	66
- Increase in provisions from other sources to individuals (Note 27b)	2	-
Provisions used during the year (towards employees)	(320)	(174)
Provisions used during the year (for legal disputes)	(8)	-
At 31 December	**233**	**301**

Notes to the financial statements (continued)

17. OTHER LIABILITIES

[EUR'000]	31 December 2022	31 December 2023
Trade payables	42	138
Liabilities for salaries, deductions from salaries, taxes and benefits	153	150
Deferred income	33	33
Other liabilities	87	55
Liabilities for assets in use	1,513	1,666
TOTAL	**1,828**	**2,042**

Liabilities for assets in use mostly include lease agreements for business offices in Zagreb and Varaždin.

18. EQUITY

a. Share capital

[EUR'000]	31 December 2022	31 December 2023
Share capital	43,412	43,412
TOTAL	**43,412**	**43,412**

31 December 2023	Number of shares	Ownership share (%)
J&T BANKA A.S.	32,118,202	98.20
J&T BANKA D.D.	590,338	1.80
TOTAL	**32,708,540**	**100.00**

31 December 2022	Number of shares	Ownership share (%)
J&T BANKA A.S.	32,118,202	98.20
Other shareholders	590,338	1.80
TOTAL	**32,708,540**	**100.00**

Ordinary shares carry voting rights at shareholders' meetings, subject to a minimum shareholding of one share. The Bank does not have preference shares. Issued share capital as at 31 December 2023 amounted to EUR 43.4 million (31 December 2022: EUR 43.4 million). The total number of authorised registered shares at 31 December 2023 was 20,708,540 (2022: 32,708,540) with no nominal value per share (2022: no nominal value per share).

Notes to the financial statements (continued)

18. EQUITY (continued)

b. Share premium

The premium on the issued shares was formed in previous periods as a result of the recapitalization of the Bank above the nominal value of the subscribed capital.

c. Other reserves

[EUR'000]	31 December 2022	31 December 2023
Reserves for treasury shares	339	339
Legal reserves	164	164
	503	**503**

Other reserves comprise of legal reserves and treasury shares reserves.

Legal reserve

The bank is obliged to form a legal reserve by allocating 5% of net profit for the year, until reserves reach 5% of the share capital. The legal reserve may be used to cover losses of previous years if the losses are not covered by current profit for the year or if no other reserves are available.

Treasury share reserve

The reserve for treasury shares is the result of the divestments based on the previous ownership of its own shares, and subsequently sold with the net gain and re-purchase during 2018 and 2017.

d. Treasury shares

When the Bank purchases the share capital of the Bank (treasury shares), the paid amount represents a deductible item from the capital and reserves belonging to the Bank's shareholders until such shares are rescinded, issued or sold.

On December 31, 2023, the Bank had a total of 590,338 (31 December 2022: 590,338) treasury shares worth EUR 292 thousand (31 December 2022: 292 thousand). During 2023 and 2022 there were no changes in Treasury shares.

e. Fair value reserve

The Fair value reserve includes unrealized gains and losses from changes in fair value of debt securities at fair value through other comprehensive income.

	2022.	2023.
Reserve from reduction to fair value of financial assets at fair value through OCI - debt	(2.507)	(1.754)
Expected credit losses for financial assets at fair value through OCI	-	8
Total fair valure reserve	**(2.507)**	**(1.746)**

Notes to the financial statements (continued)

18. EQUITY (continued)

The fair value adjustment reserve includes unrealized gains and losses based on changes in the fair value of financial assets through other comprehensive income.

Movement of reserves from reduction to fair value is as follows:

	2022.	**2023.**
At 1 January	107	(2.507)
Increase/decrease of reserve	(2.624)	761
Tax	10	-
At 31 December	**(2.507)**	**(1.746)**

f. Accumulated loss

The transferred loss includes accrued losses from previous years.

Notes to the financial statements (continued)

19.INTEREST INCOME CALCULATED BY USING THE EFFECTIVE INTEREST METHOD

[EUR'000]	2022	2023
Analysis by product	**2,375**	**3,574**
Loans and advances to customers	2,287	2,713
Placements with other banks	2	778
Debt securities	86	83
Other	-	-
Analysis by source	**2,375**	**3,574**
Retail	34	7
Corporate	1,714	2,705
State and public sector	99	84
Financial institutions	81	778
Other	447	-

20. INTEREST AND SIMILAR CHARGES

[EUR'000]	2022	2023
Analysis by product	**498**	**532**
Deposits from customers	285	343
Deposits and borrowings from banks	26	19
Subordinated debt	153	114
Interest expense on lease liabilities	34	56
Analysis by source	**498**	**532**
Retail	189	293
Corporate	80	106
State and public sector	-	-
Financial institutions	229	133
Other	-	-

21. FEE AND COMMISSION INCOME

[EUR'000]	2022	2023
Brokerage fees	372	122
Banking fees to other credit institutions	137	88
Payment transactions	64	43
Early repayment fees	22	20
Agent fees	14	19
Mandatory fees	16	15
Letters of credit and guarantee fees	6	8
Other	32	7
TOTAL	**663**	**322**

Notes to the financial statements (continued)

22. FEE AND COMMISSION EXPENSE

[EUR'000]	2022	2023
Payment transactions	31	30
Credit cards	1	-
Other	32	12
TOTAL	**64**	**42**

23. NET GAINS AND LOSSES FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

[EUR'000]	2022	2023
Realised net (loss)/gain from securities at fair value through OCI	**15**	**-**
Bonds	15	-
TOTAL	**15**	**-**

24. NET FOREIGN EXCHANGE GAINS AND FX TRADING INCOME

[EUR'000]	2022	2023
Net (loss)/gain from translation of monetary assets and liabilities	-	4
Net gains from trading with foreign currencies	204	16
TOTAL	**204**	**20**

Notes to the financial statements (continued)

25. OTHER INCOME

[000 EUR]	2022	2023
Rental of premises	98	111
Use of corporate cars	7	7
Collection of previously written off receivables	2	-
Net income from disposal of tangible and intangible assets	130	5
Release of accrued expenses from previous years	62	37
Other	51	111
TOTAL	**350**	**271**

26. OTHER ADMINISTRATIVE EXPENSES

a) Personnel expenses

[EUR'000]	2022	2023
Personnel expenses	**1,698**	**1,808**
- *Net salaries*	*974*	*1.021*
- *Contributions on and from salaries*	*497*	*528*
- *Taxes and surtaxes*	*167*	*186*
- *Other personnel expenses*	*60*	*73*
TOTAL	**1,698**	**1,808**

As at 31 December 2023, the Bank had 52 employees (31 December 2022: 52 employees).

b) Other administrative expenses

[EUR'000]	2022	2023
Services	669	777
Material and other costs	128	183
Costs of deposit insurance	43	62
Taxes, contributions, fees	51	51
Representation, advertising and sponsorship	30	50
Business trip	27	46
Other administrative expenses	39	39
Car and other transportation expenses	19	14
Other expenses	3	36
TOTAL	**1,009**	**1,258**

Services include intellectual services, including the audit cost. The audit fee in 2023 amounted to EUR 80.3 thousand, plus VAT (2022: EUR 62 thousand + VAT), and for the Related Party Report, the compensation was agreed in the amount of 3 thousand euros plus VAT.

In accordance with the Deposit Insurance Act and the Methodology for calculating the degree of risk of a particular credit institution in Croatia, the deposit insurance premium is calculated as a multiplication of the premium base, the premium rate and the degree of risk.

Notes to the financial statements (continued)

27. EXPECTED CREDIT LOSSES AND PROVISIONS

a) Recognised ECL during the period

[EUR'000]	2022	2023
Recognised ECL during the period		
Impairment of loans and advances to customers (Note 4.1.1)	1,986	1,102
Impairment of Accounts with the CNB and giro accounts and placements with other banks	(60)	5
Impairment of securities at fair value through OCI	(36)	8
Impairment of off-balance-sheet exposure to credit risk (Note 17)	(20)	66
TOTAL	**1,870**	**1,181**

b) Provisions

[EUR'000]	2022	2023
Other provisions		
Provisions for court cases (Note 17)	1	1
Provisions for termination benefits (Note 17)	175	175
Impairment of foreclosed assets (Note 13a)	-	-
TOTAL	**176**	**176**

28. INCOME TAX

a) Income tax expense recognised in the income statement

[EUR'000]	2022	2023
Current tax expense	-	-
Deferred tax expense	-	-
TOTAL INCOME TAX	-	-

b) Reconciliation of accounting profit and current income tax liability

[EUR'000]	2022	2023.
(Loss)/Profit before tax	(2,307)	(1,540)
Income tax at a rate of 18%	(415)	(277)
Non-deductible expenses - tax at a rate of 18%	929	86
Non-taxable income - tax rate 18%	(951)	(54)
Tax profit/(loss) for the year at a rate of 18%	-	-
Tax losses carried forward for which no deferred tax asset is recognized	437	245
Utilisation of previously unrecognised tax losses	-	-
Write-off of deferred tax assets utilised in previous years	-	
Effective tax rate	-	-
TOTAL	-	-

Notes to the financial statements (continued)

28. INCOME TAX (CONTINUED)

The availability of tax losses in future periods, subject to change by the Ministry of Finance, gross of tax rate, are as follows:

[EUR'000]	31 December 2023
No later than 1 year	-
No later than 2 year	1,833
No later than 3 year	-
No later than 4 year	2,430
No later than 5 year	1,360
Total gross tax losses carried forward not recognised as deferred tax assets	**5,623**

On the reporting date the Bank did not recognise any deferred tax asset in respect of tax losses carried forward on the grounds of uncertainty as to whether sufficient future taxable profits will be available to utilise those losses before their expiry.

c) Deferred tax liability on financial assets – amounts recognised in OCI

The Bank has not recognized in its books a deferred tax liability or unrealized gains on securities measured in OCI, as well as 2022.

[EUR '000] Items that are or may be reclassified to subsequently to profit or loss	2022	2023
Balance as at 1 January	**10**	**-**
Recognised deferred tax liability in other comprehensive income	(10)	-
Balance as at 31 December	**-**	**-**

For unrealized gains from Other comprehensive income, the Bank did not recognize deferred tax assets since it is not certain whether it will generate sufficient future profits to use these losses.

Notes to the financial statements (continued)

29. CONCENTRATION OF ASSETS AND LIABILITIES

The table below represents the concentration of the Bank's assets and liabilities towards Republic of Croatia, including state-owned institutions and central bank (before ECL allowance):

[EUR'000]	Notes	31 December 2022	31 December 2023
Giro account with CNB	6	28,476	634
Obligatory reserve with CNB	6	-	23,991
Bonds and treasury bills issued by the Ministry of Finance		12,369	10,935
Borrowings from Croatian Bank for Reconstruction and Development		(636)	(21)
TOTAL		**40,209**	**35,539**

30. CASH AND CASH EQUIVALENTS

[EUR'000]	Notes	31 December 2022	31 December 2023
Cash and giro accounts with other banks	7	3,779	2,687
Giro account with CNB	6	28,476	24,635
TOTAL		**32,255**	**27,322**

31. CONTINGENCIES

[EUR'000]	31 December 2022	31 December 2023
Guarantees	**176**	**289**
in domestic currency	176	289
Revolving facility	**531**	-
in domestic currency	531	-
in foreign currency	-	-
TOTAL	**707**	**289**

As at 31 December 2023, the Bank recognized provisions on off-balance sheet risks arising from the issuance of guarantees, letters of credit and unused loan credits in the amount of EUR 82 thousand (2022: EUR 16 thousand) as presented in note 17.

Notes to the financial statements (continued)

32. RELATED PARTY TRANSACTIONS

The majority owner of the Bank is J&T Banka a.s. based in the Czech Republic and the ultimate parent is J&T Finance Group SE. The majority owner as at 31 December 2023 owned 98.20% of the Bank's shares (31 December 2022: 98.2%). With the recapitalization in 2015 and 2016 and the subordinated debt, the Bank was recapitalized in 2022, and had other banking transactions with its majority owner during the year which resulted with revenue and expenses for the year, as well as assets and liabilities at year-end.

The second largest shareholder as at 31 December 2021 is Alternative Upravljanje d.o.o. owned 11.63% of the shares. The remaining 5.82% of the shares were traded publicly until 3rd November 2017 and delisted from Zagreb Stock Exchange. In 2022 majority owner take over all shares from small shareholders.

The Bank considers its related parties are their key shareholders, their direct or indirect subsidiaries, members of the Supervisory Board and the Management Board and other management (together "key management"), close family members of key management, jointly controlled companies or companies under significant influence of the Key management members and members of their immediate families, in accordance with the definition given in the International Accounting Standard 24 "Related Party Disclosures" ("IAS 24").

As at 31 December 2023, the Bank has liabilities to key shareholders in respect of assets on current accounts and liabilities for received deposits.

Transactions related to key management in 2023 were related to the payment of regular salaries and received deposits. Contributions for key management in 2023 amounted to 268 thousand euros (2022 contributions amounted to 252 thousand euros). The Bank regulates the Proceeds through the Policy and Ordinance on measuring and rewarding the Bank's performance, organizational units and employees.

Key management includes members of the Management Board and directors responsible for areas of strategic importance. The number of key management members at 31 December 2023 is 17 (31 December 2022: 16).

Related party transactions for the year ended 31 December 2023 and 31 December 2022 were as follows:

	2022					2023				
	Assets	Liability	Revenue	Expenses	Impairment	Assets	Liability	Revenue	Expenses	Impairment
J&T Finance Group SE and affiliates										
Other income	-	-	509	-	(51)	-	-	52	-	-
Other receivables	-	-	-	-	-	67	-	210	-	-
Received deposits										
Giro accounts	1,377	248	-	-	-	1,372	180	-	-	-
Received loans	-	-	-	10	(11)	-	-	-	8	-
Subordinated debt	-	3,000	-	153	-	-	3,000	-	114	-
Other liabilities	-	-	-	3	-	-	-	-	-	-
TOTAL	**1,377**	**3,248**	**509**	**166**	**(11)**	**1,439**	**3,180**	**262**	**122**	-
Key management personnel										
Loans and advances to customers	1	-	-	-	-	-	-	-	-	-
Received deposits	-	276	-	-	-	-	211	-	-	-
Compensation to key management personnel	-	79	-	893	-	-	78	-	986	-
TOTAL	**1**	**355**	**-**	**893**	**-**	**-**	**289**	**-**	**986**	**-**

Notes to the financial statements (continued)

33. AVERAGE EFFECTIVE INTEREST RATES

Average interest rates calculated based on the weighted average for each category of interest-earning assets and interest-bearing liabilities, are presented below:

	2022	2023
Assets		
Amounts with the Croatian National Bank	-	3.56%
Placements with banks	3.30%	3.55%
Investment securities	0.50%	0.53%
Loans and advances to customers	5.51%	8.40%
Liabilities		
Deposits from customers	0.31%	0.58%
Deposits and borrowings from banks	1.04%	2.61%
Subordinated debt	3.82%	3.79%

34. OPERATING LEASE COMMITMENTS

Following table presents future minimum lease payments for which the Bank did not recognise right-of-use assets and liabilities for leases in accordance with IFRS 16:

[000 EUR]	31.12.2022	31.12.2023
Up to 1 year	13	14
From 1 to 2 years	14	14
From 2 to 3 years	14	14
From 3 to 4 years	14	14
From 4 to 5 years	14	14
Over 5 years	50	39
	119	**109**

Notes to the financial statements (continued)

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value

Fair value represents the amount at which an asset could be exchanged, or a liability settled on normal market conditions, Financial assets through other comprehensive income are carried at fair value.

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: These instruments include: liquid debt and equity securities traded on liquid markets and quoted investment in investment funds.
- Level 2: These instruments include: less-liquid debt and equity securities and derivatives valued by a model that uses input level 1 data.
- Level 3: Instruments where fair value cannot be determined directly by referring to available market information and for which different valuation techniques were used to calculate the value. Instruments classified in this category relate to a factor that is not available on the market, which has a significant impact on the fair value of the instrument itself.

There were no transfers between levels in 2023 and 2022. The tables below present the fair value of financial instruments that are measured at fair value for the Bank, allocated by the hierarchy of fair value levels with respect to the input data used in the valuation process.

2023 Financial assets	Level 1 EUR '000	Level 2 EUR '000	Level 3 EUR '000	Total EUR '000
Financial assets at fair value through other comprehensive income				
Bonds of the Ministry of Finance	11,006	-	-	11,006
Foreign government bonds	3,348	-	-	3,348
Foreign corporate bonds	-	-	1	1
Financial assets at fair value through profit and loss account				
Cash funds	-	-	-	-
Total financial assets at fair value	**14,354**	-	**1**	**14,355**

2022 Financial assets	Level 1 EUR '000	Level 2 EUR '000	Level 3 EUR '000	Total EUR '000
Financial assets at fair value through other comprehensive income				
Bonds of the Ministry of Finance	12,443	-	-	12,443
Foreign government bonds	3,221	-	-	3,221
Foreign corporate bonds	-	-	1	1
Foreign treasury bills	-	-	-	-
Financial assets at fair value through profit and loss account				
Cash funds	-	-	-	-
Total financial assets at fair value	**15,664**	-	**1**	**15,665**

Notes to the financial statements (continued)

35. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial instruments measured at fair value (continued)

The table below shows the reconciliation of initial and final financial instruments at level 3 of the fair value hierarchy.

	Securities	Loans and advances
As at 1 January 2023	**1**	**-**
Addition	-	-
Sales/Maturity	-	-
As at 31 December 2023	**1**	**-**

	Securities	Loans and advances
As at 1 January 2022	1	-
Additions	-	-
Sales/Maturity	-	-
As at 31 December 2022	**1**	**-**

When discounting cash flows of assets or liabilities, the Bank uses weighted average monthly interest rates on loans and advances, ie deposits.

In assessing fair value, the Bank uses the following methods:

Cash and accounts with banks, amounts with the Croatian National Bank

The carrying values of accounts with banks and amounts with the central bank approximate to their fair values, given the short maturity of these assets.

Placements with other banks

The estimated fair value of placements with banks represents the discounted amount of future cash flow receipts. Due to their short-term character, their fair value approximates to their carrying value.

Loans and advances to customers carried at amortised cost

Fair value is based on a discounted cash flows using currently applicable interest rates on loans for similar terms or similar credit characteristics. Most of the Bank's loan portfolio is approved at a variable interest rate. Using the discounting method of cash flows and interest (assuming that the loan is repayable according to the agreed terms and taking into account the existing specific provisions), there is a difference between the fair value of the loan portfolio and the carrying amount, resulting from higher interest rates of the Bank than those on the market. The fair value of loans to non-performing customers is estimated on the basis of a discounted cash flow analysis or the estimated value of the underlying security instrument. Estimated fair value of loans and advances to customers represents the discounted amount of expected future cash receipts. Expected future cash inflows are discounted using the market interest rate.

Notes to the financial statements (continued)

35. FAIR VALUE OF FINANCIAL ASSETS (continued)

Deposits from banks and customers

The fair value of term deposits payable on demand represents the carrying value of amounts payable as at the balance sheet date. The fair values of term deposits at variable interest rates approximate their carrying values as at the balance sheet date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using rates currently applied to deposits of similar remaining maturities. According to the discounted cash flows, it is concluded that the fair value does not differ significantly from carrying value. Most of the customers' deposits with fixed interest rates become due within one year and consequently their fair value does not significantly differ from their carrying value.

Borrowings

Due to its short-term nature, the carrying value approximates the fair value.

Subordinated debt

Considering that there are no similar investments on the market, the management believes that the carrying value of subordinated debt approximates its fair value.

Financial instruments not valued at fair value:

	31 December 2022		31 December 2023	
	Carrying value	Fair value (Level 3)	Carrying value	Fair value (Level 3)
FINANCIAL ASSETS				
Accounts with the CNB and credit institutions	32,241	32,241	27,311	27,311
Loans and advances to customers	37,620	38,777	30,694	31,968
Total financial assets	**69,861**	**71,018**	**58,005**	**59,279**
Deposits from customers	69,200	69,200	57,112	57,112
Deposits and borrowings from banks	885	885	201	201
Subordinated debt	3,000	3,000	3,000	3,000
Total financial liabilities	**73,085**	**73,085**	**60,313**	**60,313**

Notes to the financial statements (continued)

36. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Reconciliation of movements of liabilities to cash flows arising from financing activities:

[EUR'000]	1 January 2023	Cash flow	Foreign exchange movement	Other changes	31 December 2023
Borrowings	885	(684)	-	-	201
Lease liabilities	1,513	(442)	-	595	1,666
Subordinated debt	3,000	-	-	-	3,000
TOTAL	5,398	(1,126)	-	595	4,867

[EUR'000]	1 January 2022	Cash flow	Foreign exchange movement	Other changes	31 December 2022
Borrowings	6,968	(6,082)	(1)	-	885
Lease liabilities	1,701	(309)	-	121	1,513
Subordinated debt	5,644	(7)	18	(2,654)	3,000
TOTAL	14,313	(6,398)	17	(2,533)	5,398

37. IMPACT OF ECONOMIC ENVIRONMENT (war in Ukraine)

The invasion of Ukraine by the Russian Federation, and the consequent adoption of international sanctions against the Russian Federation and the Republic of Belarus, as well as certain citizens of these countries, still represents a significant event that has with its occurrence affected the Bank's risk management, as well as general corporate governance in all related areas. Following the invasion and the adoption of international sanctions, the Bank conducted a detailed analysis of potential increased exposure to credit risk, market risks, liquidity risk, IT/cyber risks and risks related to the prevention of money laundering and terrorism financing. In the periods which followed the Bank is continuously performing a control of thee adequacy of actions and procedures in all the above listed areas, and all with a goal to minimize the risks arising from the changes in economic environment, which took place as a direct or indirect consequence of the confrontation, which is still ongoing.

After the international sanctions have been enforced, the Bank has strictly prescribed restrictive measures in the area of performing payment operations and establishing new business relationships, and all in order to fulfill the demands put in front of the Bank by the international restrictive measures and sanction lists.

From the aspect of liquidity risk, the Management Board assesses the level of liquidity as continuously high. The movement of sources of funds, primarily deposits from the retail sector, is monitored on a weekly basis, and no significant negative impact on liquidity or prescribed liquidity indicators has taken place nor is it expected.

In the area of IT and cyber risk, the Bank has implemented additional safeguards to reduce the risk of cyber attacks, and there have been no attempts by third parties in this area.

With regard to market risks, the changes in securities prices held by the Bank in the FVOCI portfolio, are being monitored on a daily basis, and the effect of a possible decrease in securities prices on the Bank's capital, ie capital adequacy, and potential breach of regulatory maximum exposure limits is calculated and reported on a daily/weekly basis.

Notes to the financial statements (continued)

37. IMPACT OF ECONOMIC ENVIRONMENT (war in Ukraine)

In terms of credit risk, a significant dependence of one client on the Ukrainian market has been identified as it generates the vast majority of its revenues in the Ukrainian market. At the same time, production complexes owned by the related company are located in Ukraine as well. Exposure to the client in question represents approximately 1,6% of the Bank's total assets as at 31 December 2023. In relation to the exposure in question, the Bank conducted stress testing in the area of capital adequacy, and it was determined that even in the event of a scenario of total loss on this exposure, the Tier 1 and total capital adequacy indicators remain significantly above the minimum levels prescribed by regulators. Therefore, the general assessment of the Management Board is that the event mentioned here does not lead to material effects, i.e. it does not raise a significant doubt about the Company's ability to continue as a going concern.

However, the political and economic environment still remains in a state of considerable uncertainty and the Management Board cannot rule out the possibility that a further prolonged period of Russian invasion of Ukraine could have an impact on reduced economic activity, rising inflation and deterioration of other macroeconomic indicators, whose effects could easily be transferred to the real sector, and subsequently cause a crisis of systemic proportions. Management is closely monitoring the situation and if necessary will undertake all available measures, in order to mitigate the potential adverse effects of any events or circumstances.

38. SUBSEQUENT EVENTS

After the balance sheet date, there were no significant events that required disclosure.

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were adopted by the Management Board and approved for their issuance on March 22, 2024.

Signed on behalf of J&T bank d.d. March 22, 2024:

Hrvoje Draksler, President of the Management Board

J&T BANKA d.d.
3

Petar Rajković, Member of the Management Board

Additional reports for the Croatian National Bank

Supplementary financial statements prepared in accordance with the framework for reporting set out in the Decision of the Croatian National Bank on the Structure and Content of the Annual Financial Statements of credit institutions (Official Gazette 42/2018, 122/2020, 119/2021) are presented below:

Additional reports for the Croatian National Bank (continued)

Balance sheet as at 31 December 2023

	2022	2023
Assets		
Cash, deposits with the Croatian National Bank and other demand deposits	32,229	3,320
Cash in hand	931	1,040
Deposits with the Croatian National Bank	28,464	634
Other demand deposits	2,834	1,646
Financial assets held for trading	-	-
Derivatives	-	-
Equity instruments	-	-
Debt securities	-	-
Loans and advances	-	-
Non-financial assets mandatorily measured at fair value through profit or loss	-	-
Equity instruments	-	-
Debt securities	-	-
Loans and advances	-	-
Financial assets designated at fair value through profit or loss	-	-
Debt securities	-	-
Loans and advances	-	-
Financial assets at fair value through other comprehensive income	15,665	14,355
Equity instruments	-	-
Debt securities	*15,665*	*14,355*
Loans and advances	-	-
Financial assets at amortized cost	37,645	54,738
Debt securities	-	-
Loans and advances	*37,645*	*54,738*
Derivatives – hedge accounting	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Investments in subsidiaries, joint ventures and associates	-	-
Tangible assets	1,874	1,965
Intangible assets	661	391
Tax assets	1	1
Other assets	121	157
Non-current assets and disposal groups classified as held for sale	-	-
Total assets	**88,195**	**74,927**

Additional reports for the Croatian National Bank (continued)

Balance sheet as at 31 December 2023 (continued)

	2022	2023
Liabilities		
Financial liabilities held for trading	-	-
Derivatives	-	-
Short positions	-	-
Deposits	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Financial liabilities designated at fair value through profit or loss	-	-
Deposits	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Financial liabilities measured at amortized cost	74,598	61,980
Deposits	*73,085*	*60,314*
Debt securities issued	-	-
Other financial liabilities	1,513	1,666
Derivatives – Hedge accounting	-	-
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
Provisions	265	301
Tax liabilities	-	-
Share capital repayable on demand	-	-
Other liabilities	283	376
Liabilities included in disposal groups classified as held for sale	-	-
Total liabilities	**75,146**	**62,657**
Equity		
Share capital	43,412	43,412
Share premium	2,845	2,845
Equity instruments issued other than capital	-	-
Other equity	-	-
Accumulated other comprehensive income	(2,507)	(1,746)
Retained earning	(28,604)	(30,911)
Revaluation reserves	-	-
Other reserves	504	503
(-) Treasury shares	(292)	(292)
Profit or loss attributable to owners of the parent	(2,307)	(1,540)
(-) Interim dividends	-	-
Minority interests [Non-controlling interests]	-	-
Total equity	**13,049**	**12,270**
Total liabilities and equity	**88,195**	**74,927**

Additional reports for Croatian National Bank (continued)

Income statement for the period ended 31 December 2023

	2022	2023
Interest income	2,413	3,586
(Interest expense)	(537)	(544)
(Return on equity that is returned on demand)	-	-
Dividend income	-	-
Fee and commission income	664	322
(Fee and commission expense)	(64)	(43)
Gains or (–) losses on termination of recognition of financial assets and financial liabilities that are not measured at fair value through profit or loss, net	15	-
Gains or (–) losses on financial assets and financial liabilities held for trading, net	204	16
Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net	-	-
Gains or (–) losses on financial assets and financial liabilities at fair value through profit or loss, net	-	-
Gains or (–) losses from hedge accounting, net	-	-
Foreign exchange differences (gains or losses), net	(3)	4
Gains or (–) losses upon derecognition of investments in subsidiaries, joint ventures and associated companies, net	-	-
Gains or losses on discounting nonfinancial assets, net	(2)	5
Other operating income	220	266
(Other operating expenses)	(51)	(83)
Total operating income, net	**2,859**	**3,530**
(Administrative expenses)	(2,595)	(2,906)
(Payment commitments to resolution funds and deposit guarantee schemes)	(44)	(63)
(Depreciation)	(614)	(745)
Gains or losses due to changes, net	-	-
(Provisions or cancellation of provisions)	(156)	(242)
Impairment or reversal of financial assets that are not measured at fair value through profit or loss	(1,887)	(1,115)
Impairment or reversal of investments in subsidiaries, joint ventures and associates	-	-
Creation or release of impairment of nonfinancial assets	-	-
Negative goodwill recognized in profit or loss	-	-
Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for by share method	-	-
Profit or loss from Non-Current Assets and Allocation Assets classified as held for sale that are not qualifying as non-going business	129	-
Profit or loss before operating taxes that will continue	**(2,307)**	**(1,540)**
Tax expense or income related to operating profit or loss that will continue	-	-
Profit or loss before operating taxes that will continue	**(2,307)**	**(1,540)**
Profit or loss before operating taxes that will not continue	-	-
Profit or loss before operating taxes that will not continue	-	-
Tax expense or income related to business that will not continue	-	-
Profit or loss for the year	**(2,307)**	**(1,540)**
It belongs to minority interest (non-controlling interest)	-	-
It belongs to the owners of the parent company	-	-

Additional reports for Croatian National Bank (continued)

Statement of Comprehensive Income for the Year Ended 31 December 2023

	2022	2023
Net profit/(loss) for the period	**(2,307)**	**(1,540)**
Other comprehensive income	**(2,591)**	**761**
Items which will not be subsequently reclassified in profit or loss	-	-
Tangible assets	-	-
Intangible assets	-	-
Actuarial gains or losses on pension plans under the sponsorship of the employer	-	-
Non-current assets and disposal groups intended for sale	-	-
Share of other recognized income and expenses from entities accounted by equity method	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	-	-
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Income tax relating to items that will not be reclassified	-	-
Items that are or may be reclassified to profit or loss	**(2,591)**	**761**
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	-	-
Cash flow hedges [effective portion]	-	-
Hedging instruments [not designated elements]	-	-
Debt instruments at fair value through other comprehensive income	(2,623)	761
Non-current assets and disposal groups held for sale	-	-
Share of other recognized income and expense of Investments in subsidiaries, joint ventures and associates	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	32	-
Total comprehensive income for the year	**(4,898)**	**(780)**
Attributable to minority interest (non-controlling interest)	-	-
Attributable to owners of the parent company	-	-

Additional reports for Croatian National Bank (continued)

Statement of cash flows for year ended 31 December 2023

	2022	2023
Business activities according to the indirect method		
Profit/(loss) before tax	(2,307)	(1,540)
Adjustments:		
Impairment losses	1,870	1,357
Depreciation and amortization	614	745
Unrealized (gains)/losses on securities at fair value through profit or loss	-	-
(Gains)/losses from sale of tangible assets	-	-
Other (gains)/losses	3	(4)
Changes in assets and liabilities due to operating activities		
Deposits with the Croatian National Bank	4,875	-
Deposits with banking institutions and loans to financial institutions	(9)	17
Loans and advances to other clients	7,119	5,865
Securities and other financial instruments at FVOCI	4,939	2,068
Securities and other financial instruments held for trading	-	-
Securities and other financial instruments at fair value through profit or loss which are not actively traded	-	-
Securities and other financial instruments mandatorily at FVTPL	-	-
Securities and other financial instruments at amortized cost	-	-
Other operating assets	1,153	106
Deposits from financial institutions	(162)	(615)
Other clients demand deposits	6,322	(5,714)
Other clients savings deposits	(5,058)	(3,028)
Other clients term deposits	(9,382)	(3,673)
Derivative financial liabilities and other liabilities held for trading	-	-
Other operating liabilities	(738)	300
Interest received from operating activities [indirect method]	-	-
Dividends received from operating activities [indirect method]	-	-
Interest paid from operating activities [indirect method]	-	-
(Income tax paid)	-	-
Net inflow/(outflow) of cash from operating activities	**9,238**	**(4,116)**

Additional reports for Croatian National Bank (continued)

Statement of cash flows for year ended 31 December 2023 (continued)

	2022	2023
Investing activities		
Cash receipts from/(payments to acquire) tangible and intangible assets	412	(818)
Cash receipts from the disposal of/(payments for the investment in) subsidiaries, associates and joint ventures	-	-
Cash receipts from sales of/(cash payments to acquire) securities and other financial instruments from investing activities	-	-
Dividends received from investing activities	-	-
Other receipts from/(payments for) investments	-	-
Net cash flow from investing activities	**412**	**(818)**
Financing activities		
Net increase/(decrease) in received loans from financing activities	(6,007)	-
Net increase/(decrease) in issued debt securities	-	-
Net increase/(decrease) in subordinated and hybrid instruments	(2,654)	-
Proceeds from issue of share capital	2,657	-
(Dividends paid)	-	-
Other proceeds/(payments) from financing activities	-	-
Net cash flow from financing activities	**(6,007)**	**-**
Net increase/(decrease) in cash and cash equivalents	**3,643**	**(4,934)**
Cash and cash equivalents at the beginning of the year	**28,512**	**32,242**
Effect of foreign exchange differences on cash and cash equivalents	87	13
Cash and cash equivalents at the end of the year	**32,242**	**27,321**

Additional reports for Croatian National Bank (continued)

Statement of changes in equity for year ended 31 December 2023

	Share capital	Share premium	Accumulated other comprehensive income	Retained earnings	Other reserves	Treasury shares	Profit/loss attributable to owners of the parent company	Dividends for the financial year	Total
Initial balance (before restatement)	**43,412**	**2,845**	**(2,507)**	**(28,604)**	**503**	**(292)**	**(2,307)**	-	**13,049**
The effect of corrections of errors	-	-	-	-	-	-	-	-	-
The effect of changes in accounting policies	-	-	-	-	-	-	-	-	-
Initial state (current period)	**43,412**	**2,845**	**(2,507)**	**(28,604)**	**503**	**(292)**	**(2,307)**	-	**13,049**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-
Execution or expiration of other issued equity instruments	-	-	-	-	-	-	-	-	-
Converting debt to ownership instruments	-	-	-	-	-	-	-	-	-
Equity reduction	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from equity instruments to liabilities	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity instruments	-	-	-	-	-	-	-	-	-
Transfers between components of proprietary instruments	-	-	-	(2,307)	-	-	2,307	-	-
Increase or decrease in equity instruments as a result of business combinations	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-	-	-
Other enhancement or reduction of equity instruments	-	-	-	-	-	-	-	-	-
Total comprehensive income for the current year	-	-	761	-	-	-	(1,540)	-	**(780)**
Final state (current period)	**43,412**	**2,845**	**(1,746)**	**(30,911)**	**503**	**(292)**	**(1,540)**	-	**12,270**

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB

Reconciliation of balance sheet as at 31 December 2023

in '000 EUR

	TOTAL ASSETS - Statutory financial statements	Funds with the CNB	Cash and due from banks	Placements with other banks	Financial assets securities	Loans and advances to customers	Property and equipment	Intangible assets	Other assets	ACCOUNT 296096	TOTAL ASSETS	Ordinal number
ASSETS Specific financial statements 31.12.2023												
1.	Cash, cash receivables from central banks and other demand deposits											
1.1.	Cash		1.040								1.040	1
1.2.	Cash receivables from central banks	634									634	2
1.3.	Other deposits		1.646								1.646	3
2	Financial assets held for trading											
2.1.	Derivatives											
2.2.	Equity instruments											
2.3.	Securities											
2.4.	Loans and advances											
3.	Non-trading financial assets that are measured at fair value through profit or loss											
3.1.	Equity instruments											
3.2.	Securities											
3.3.	Loans and advances											
4.	Financial assets at fair value through profit or loss											
4.2.	Securities											
4.3.	Loans and advances											
5.	Financial assets at fair value through other comprehensive income											
5.1.	Equity instruments											
5.1.	Securities				14.355						14.355	4
5.2.	Loans and advances											
6.	Financial assets at amortized cost											
6.1.	Securities											
6.2	Loans and advances	23.991				30.694			53		54.738	5
7.	Derivatives - hedge accounting											
8.	Changes in the fair value of hedged items to hedge the portfolio of interest rate risk											
9.	Investments in subsidiaries, joint ventures and associates											
10.	Tangible assets						1.764	147	54		1.965	6
11.	Intangible assets							391			391	7
12.	Tax assets								0		0	
13.	Other assets							0	158		158	8
14.	Non-current assets and disposal groups classified as held for sale								0		0	
	TOTAL ASSETS	24.625	2.686	0	14.355	30.694	1.764	538	265		74.927	

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Reconciliation of balance sheet as at 31 December 2023

in '000 EUR

	TOTAL LIABILITIES - Statutory financial statements	Client deposits	Borrowings	Hybrid instruments	Provision for liabilities and charges	Other liabilities	Deferred tax liability	Accumulated other comprehensive income	TOTAL LIABILITIES Specific	Ordinal number
LIABILITIES Specific financial statements 31.12.2023										
1.	Financial liabilities held for trading									
1.1.	Derivatives									
1.2.	Short positions									
1.3.	Deposits									
1.4.	Debt securities									
1.5.	Other financial liabilities									
2.	Financial liabilities at fair value through profit or loss									
2.1.	Deposits	57.113	201	3.000					60.314	1
2.2.	Debt securities									
2.3.	Other financial liabilities					1666			1.666	2
3.	Financial liabilities measured at amortized cost									
3.1.	Deposits									
3.2.	Debt securities									
3.3.	Other financial liabilities									
4.	Derivatives - hedge accounting									
5.	Changes in the fair value of hedged items to protect the portfolio against interest rate risk									
6.	Provisions				301				301	3
7.	Tax liabilities						0	0	0	
8.	Capital that is returned on demand									
9.	Other liabilities					376			376	4
10.	Liabilities included in the disposal groups classified as held for sale								0	
									0	
	TOTAL LIABILITIES	57.113	201	3.000	301	2.042	0	0	62.657	

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Reconciliation of balance sheet as at 31 December 2023

in '000 EUR

	TOTAL CAPITAL AND RESERVES - Statutory financial statements	Share capital	Share premium	Treasury shares	Other reserves	Fair value reserve	Accumulated losses	TOTAL CAPITAL AND RESERVES Specific	Ordinal number
CAPITAL AND RESERVES Specific financial statements 31.12.2023									
1.	Share capital	43.412						43.412	1
2.	Share premium		2.845					2.845	2
3.	Issued equity instruments other than equity								
4.	Other proprietary instruments								
5.	Accumulated other comprehensive income					(1.746)		(1.746)	3
6.	Retained earnings						(30.911)	(30.911)	4
7.	Revaluation reserves								
8.	Other reserves				503			503	5
9.	Treasury shares			(292)				(292)	6
10.	Profit or loss belonging to the owners of the parent company						(1.540)	(1.540)	7
11.	Dividends for the financial year							0	
12.	Minority Shares (Non-controlling Shares)							0	
13.	Minority Shares (Non-controlling Shares)					0			
	TOTAL EQUITY	43.412	2.845	(292)	503	(1.746)	(32.452)	12.270	

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Explanations for adjustments to the balance sheet of the Specific Financial Statements and the Core Financial Statements

ASSETS

1. Amount of cash (EUR 1,040 thousand) from the cash item in the Cashier's Special Financial Statements has been reclassified to item cash and accounts with Banks of the Basic Financial Statements.

2. Amount of deposits with the CNB (EUR 634 thousand) from the item monetary claims from central banks of the Special Financial Statements was reclassified to the item money and deposits with the CNB of the Basic Financial Statements.

3. Amount of other demand deposits (EUR 1,646 thousand) from item other demand deposits of the Special Financial Statements was reclassified to cash and bank accounts with the Basic Financial Statements.

4. Amount of non-tradable financial assets that are necessarily measured at FV through profit or loss (EUR 14,355 thousand) from the item financial instruments of the Special Financial Statements has been reclassified to financial assets - securities of the Basic Financial Statements.

5. Amount of financial assets at amortized cost (EUR 54,738 thousand) from the item loans and advances of the Special Financial Statements was reclassified to cash and deposits with the CNB (EUR 23,991 thousand), loans and advances to customers (EUR 30,694 thousand) and other assets (EUR 53 thousand) of the Basic Financial Statements.

6. Amount of tangible assets (EUR 1,965 thousand) from the item tangible assets of the Special Financial Statements was reclassified to property and equipment of the Basic Financial Statements (EUR 1,764 thousand), to other assets (EUR 54 thousand) and to the item intangible assets (EUR 147 thousand).

7. Amount of intangible assets (EUR 391 thousand) from the item intangible assets of the Special Financial Statements is reclassified to the item intangible assets of the Basic Financial Statements.

8. Amount of other assets (EUR 158 thousand) from the item other assets of the Special Financial Statements was reclassified to other assets in the Basic Financial Statements.

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Explanations for adjustments to the balance sheet of the Specific Financial Statements and the Core Financial Statements (continued)

LIABILITIES

1. Amount of the financial liability at fair value through profit or loss (EUR 60,314 thousand) from the item deposits of the Special Financial Statements was reclassified to received loans (EUR 201 thousand), to customer deposits (EUR 57,113) and to the hybrid instrument item (EUR 3,000 thousand) of the Basic Financial Statements.

2. Amount (EUR 1,666 thousand) under other financial liabilities of the Special Financial Statements has been reclassified to other liabilities of the Basic Financial Statements.

3. Amount (EUR 301 thousand) under the provision of the Special Financial Statements has been reclassified to the provision for liabilities and expenses of the Basic Financial Statements.

4. Amount of other liabilities (EUR 376 thousand) was reclassified from the item other liabilities of the Special Financial Statements to the item other liabilities of the Basic Financial Statements.

EQUITY

1. Share capital (EUR 43,411 thousand) from the item share capital of the Special Financial Statements is reclassified to the item share capital of the Basic Financial Statements.

2. Share premium (EUR 2,845 thousand) of the Special Financial Statements is reclassified to premium on the issued shares of the Basic Financial Statements.

3. Item accumulated other comprehensive income (EUR -1,746 thousand) of the Special Financial Statements was reclassified to the fair value reserve item of the Basic Financial Statements.

4. Amount of retained profit - loss (EUR -30,911 thousand) from the item retained profit of Special Financials Statements, and the item profit-loss belonging to the owners of the parent company (EUR -1,540 thousand) of Special financial statements, was reclassified to the item accumulated losses of Basic financial statements in the amount of (EUR -32,452 thousand).

5. Amount of reserves (EUR 503) from the item other reserves of the Special Financial Statements was reclassified to the item other reserves of the Basic Financial Statements.

6. Treasury stock item (EUR -2,92 thousand) of the Special Financial Statements has been reclassified to Treasury stock item of the Basic Financial Statements.

7. Amount of profit or loss (EUR -1,540 thousand) from the profit or loss item belonging to the owners of the parent company is reclassified to the item accumulated losses-gains of the Basic Financial Statements.

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Reconciliation of the Income statement as at 31 December 2023

in '000 EUR

	PROFIT AND LOSS ACCOUNT- Statutory financial statements I-XII 2023	Interest income and similar income	Interest expense and similar expense	Fee and commission income	Fee and commission expense	Realized gains net of losses on securities	Gains less losses on foreign exchange gains	Other income	Employees costs	Depreciation	Other operating expenses	Impairment costs and provisions	Income tax	PROFIT (LOSS)	TOTAL	Ordinal number
1.	Interest income	3.586													3.586	1
2.	Interest expense		(544)												(544)	2
3.	Return on equity that is returned on demand															
4.	Dividend income															
5.	Fee and commission income			322											322	3
6.	Fee and commission expense				(42)										(42)	4
7.	Gains or losses on termination of recognition of financial assets and financial liabilities that are not measured at fair value through profit or loss, net														0	
8.	Gains or losses on financial assets and financial liabilities held for trading, net						16								16	5
9.	Gains or losses on financial assets not traded measured at fair value through profit or loss, net					0									0	
10.	Gains or losses on financial assets and financial liabilities at fair value through profit or loss, net															
11.	Gains or losses from hedge accounting, net															
12.	Foreign exchange differences (gains or losses), net	(12)	12				4								4	6
13.	Gains or losses on discontinuing nonfinancial assets, net							5							5	7
14.	Other operating income							266							266	8
15.	Other operating expenses										(83)				(83)	9
16.	TOTAL OPERATING INCOME, NET															
17	Administrative expenses								(1.808)		(1.098)				(2.906)	10
18	Contribution in cash to resolution committees										(63)				(63)	11
19.	Depreciation									(730)	(14)				(744)	12
20.	Gains or losses due to changes, net															
21	Provisions or cancellation of provisions											(66)	(176)		(242)	13
22.	Impairment or impairment of an impairment of a financial asset that is not measured at fair value through profit or loss											(1.115)			(1.115)	14
23.	Impairment or impairment of investments in subsidiaries, joint ventures and associates														0	
24.	Impairment of or impairment of impairment of non-financial assets											0			0	
25.	Negative goodwill recognized in profit or loss															
26.	Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for by share method															
27.	Profit or Loss from Non-Current Assets and Allocation Assets classified as held for sale that are not qualifying as non-going business														0	
28.	PROFIT OR LOSS BEFORE TAX FROM OPERATIONS TO BE CONTINUED															
29.	Tax expense or income related to operating profit or loss that will continue														0	
30.	PROFIT OR LOSS AFTER TAX FROM OPERATIONS TO BE CONTINUED															
31.	Profit or loss after taxation from operations that will not continue															
31.1.	Profit or loss before operating tax that will not continue															
31.2.	Tax expense or income related to business that will not continue															
32.	PROFIT OR LOSS FOR THE YEAR	3.574	(532)	322	(42)	0	20	271	(1.808)	(730)	(1.257)	(1.182)	(176)	(1.540)	(1.540)	
33.	It belongs to minority interest (non-controlling shares)															
34.	It belongs to the owners of the parent company															

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Explanations for adjustments of the Income statement for CNB reporting and the Statutory Financial Statements (continued)

1. Amount of interest income (EUR 3,586 thousand) from the item interest income, and the item foreign exchange difference (profit or loss) net (EUR -12 thousand) is reclassified to interest income (EUR 3,574 thousand) of the Basic Financial Statements.

2. Interest expense (EUR -544 thousand) from the item interest expense and the item foreign exchange difference (profit or loss) net (EUR 12 thousand) has been reclassified to interest expense (EUR -532 thousand) of the Basic Financial Statements.

3. Amount of fee income (EUR 322 thousand) from the item fee and commission income is reclassified in item fee income of the Basic Financial Statements.

4. Fee and commission expense (EUR -42 thousand) in the Special Financial Statements has been reclassified to fee and commission expense in the Basic Financial Statements.

5. Gains or losses on financial assets and financial liabilities held for trading, net (EUR 16 thousand) of the Special Financial Statements, is reclassified to the item Gains less exchange rate differences and trading in foreign currencies of the Basic Financial Statements.

6. Foreign exchange rate differences (profit or loss), net in the amount of EUR 4,000 in the Special Financial Statements is reclassified to the item of gains less losses from exchange rate differences and foreign currency trading in the Basic Financial Statements. Part of the gains/losses related to negative interest, for technical reasons, was reclassified in the item Interest income (-12 thousand euros) and in the item interest expenses (12 thousand euros) of the Basic Financial Statements.

7. Gains or losses on derecognition of non-financial assets, net in the amount of (EUR 5 thousand) of the Special Financial Statements, were reclassified to other income of Basic Financial Statements.

8. Other operating income (EUR 266 thousand) Special Financial Statements has been reclassified to other income of the Basic Financial Statements.

9. Other operating expenses (EUR 83 thousand) Special Financial Statements has been reclassified to other operating expenses of the Basic Financial Statements.

10. Administrative expenses (EUR -2,906 thousand) Special Financial Statements has been reclassified to employee expenses (EUR -1,808 thousand) and to other operating expenses (EUR -1,098 thousand) of the Basic Financial Statements.

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Explanations for adjustments of the Income statement for CNB reporting and the Statutory Financial Statements

11. Cash contributions to the resolution committee (EUR -63 thousand) Special Financial Statements have been reclassified to other operating expenses of the Basic Financial Statements.

12. Depreciation (EUR -744 thousand) Special Financial Statements has been reclassified to Depreciation and impairment of goodwill (EUR -730 thousand) and to other operating expenses (EUR -14 thousand) of the Basic Financial Statements.

13. Provisions or cancellations of provision (EUR -242 thousand) Special Financial Statements has been reclassified to Impairment costs and provisions of the Basic Financial Statements.

14. Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (EUR -1,115 thousand) Special Financial Statements has been reclassified to Impairment costs and provisions of the Basic Financial Statements.

Additional reports for Croatian National Bank (continued)

Reconciliation of the statutory financial statements with the supplementary schedules for CNB (continued)

Reconciliation of comprehensive income statement as at 31 December 2023

in '000 EUR

	REPORT ON OTHER COMPREHENSIVE INCOME	Profit (loss) for the year	Financial assets at fair value through OCI net of changes in fair value and provision for expected credit losses (account 6475 or VC account 906)	Deferred tax on financial assets of securities	Deferred tax on financial assets securities	Total comprehensive profits	Ordinal number
1.	Profit or loss	(1 540)				(1.540)	
2.	Other comprehensive income						
2.1.	Items that will not be reclassified to profit or loss						
2.1.1.	Tangible assets						
2.1.2.	Intangible assets						
2.1.3.	Actuarial gains or losses on pension plans under the sponsorship of the employer						
2.1.4.	Non-current assets and disposal groups intended for sale						
2.1.5.	Share of other recognized income and expense of entities that are accounted for by the equity method						
2.1.6.	Changes in fair value of equity instruments measured at fair value through other comprehensive income						
2.1.7.	Gains or losses on hedge accounting of equity instruments measured at fair value through other comprehensive income, net						
2.1.8.	Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)						
2.1.9.	Changes in fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)						
2.1.10.	Changes in the fair value of financial liabilities measured at fair value through profit or loss attributable to changes in credit risk						
2.1.11.	Income tax relating to items that will not be reclassified						
2.2.	Items that can be reclassified to profit or loss						
2.2.1.	Hedges of a Net Investment in a Foreign Operation (effective share)						
2.2.2.	Conversion of foreign currencies						
2.2.3.	Protect Cash Flow (Effective Share)						
2.2.4.	Hedging instruments (elements which are not specified)						
2.2.5.	Debt instruments at fair value through other comprehensive income		761			761	1
2.2.6.	Non-current assets and disposal groups intended for sale						
2.2.7.	Share of other recognized income and expenses from investments in subsidiaries, joint ventures and associates						
2.2.8.	Income taxes relating to items that may be reclassified profit and loss						
3.	Total comprehensive income	(1 540)	761	0	0	(779)	
4.	It belongs to minority interest (non-controlling interest)						
5.	It belongs to the owners of the parent company						

1. Amount of (EUR 761 thousand) from the item debt instruments at fair value through other comprehensive income of the Special Financial Statements is reclassified to the item unrealized gains on securities assets, net of the realization of the Basic Financial Statements.

Reconciliation of the Statement of cash flows in statutory financial statements with the supplementary schedules for CNB

The differences in the cash flow statement published in the annual report and that defined by the CNB's prescribed structure and content are caused by the different methodology of these two reports. Cash flow elaboration on items of operational, investment and financial activities is also different due to different starting points in cash flow presentation.

Disclosures pursuant to Article 164 of the Credit Institutions Act

1) J&T banka d.d. is registered for the following activities:

- Accepting deposits or other repayable funds from people and approving credits from those funds, for own account,
- accepting deposits and other repayable funds,
- approval of loans and credits, including consumer credits and loans, and mortgage credits and loans, if it is allowed by a special law, and financing commercial activities, including export financing based on discount repurchase and without reimbursement of long-term unmatured claims ensured by financial instruments (forfeiting);
- purchase of receivables with or without recourse (factoring),
- financial lease,
- issuing guarantees and other warrants,
- trading for own account or for the client's account:
  - money market instruments,
  - transferable securities,
  - foreign currencies, including exchange transactions,
  - financial futures and options,
  - currency and interest rate instruments,
- payment services in line with special laws;
- services related to crediting, e.g. collection of data, conducting analyses and providing information on creditworthiness of legal and natural persons who conduct business activities on their own;
- issuing other payment instruments and managing them, in line with a special law, unless provision of these services is not considered provision of payment services in line with special laws;
- renting safe boxes;
- mediation in money market transactions;
- investments and other services and activities in accordance with separate laws regulating capital markets, as follows:
  - trading for own account.

As at 31 December 2023, the Bank operates through 2 branches (Varaždin, Zagreb).

The Bank mainly carries out its business activities in the territory of the Republic of Croatia while only a small part of its business is carried out with non-residents.

1) The total revenue of the Bank for 2023 amounted to EUR 4,200 thousand.
2) The Bank employs 52 full-time employees.
3) Net loss in 2023 amounted to EUR 1,540 thousand and the Bank did not have any obligation to pay tax on profit.
4) The bank have not received public subsidies during 2023.