Raiffeisenbank Austria d.d.

Annual report
for the year ended 31 December 2021

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

C O N T E N T S

Letter from the president of the Management Board

On behalf of the Management Board of Raiffeisenbank Austria d.d., I am pleased to present the key figures from the 2021 Annual Report as audited by Delloitte, the international firm of auditors.

Last year, Raiffeisenbank Austria generated profit after tax of HRK 449 million, while the profit at the local Group level was HRK 503 million. The results were realized in the conditions of strong growth of economic activity and growth of demand for financial services. The operations of the Bank and members of local Group were carried out with the implementation of measures to protect the health of population from the COVID-19 virus. The use of remote work for part of employees who are not in direct contact with clients, and work in separate shifts with a regular daily break to disinfect the premises in the network have become a normal way of organizing work. Adaptation to changing epidemiological measures have been imperceptible to our clients.

The previous year saw a strong economic recovery from the pandemic shock. The easing of restrictions on anti-infective measures during the summer has favored growing revenues in tourism-related activities. Therefore, the expiration of extended moratorium on companies with seasonally concentrated income passed without a negative impact on the quality of loan portfolio. Reduced business risk enabled the continued tendency to lower interest rates on loans, which was reflected in the decline in interest incomes. On the other hand, economic growth resulted in an increase in payment transactions, card business and other financial services, which increased fees and commissions income.

The strengthening of inflationary pressures was reflected in the increase in material operating costs through the growth of purchase prices. The change in rules for deposit insurance had a positive impact on the reduction of operating costs. Due to the level of coverage achieved in the previous year, banks were not obliged to pay insurance premiums.

Risk provisions reflect the best value assessment of financial assets. The general tendency of growth in business activities was reflected in the risk classification of clients, and consequently the provisions for risks were reduced. During the year, the Bank increased the availability of products and services through modern distribution channels, while maintaining a high level of security. Adjustment to the customers' needs was implemented in compliance with the highest RBI Group standards. Synergistic effects were enabled by transmission of experiences, knowledge and skills within the Group according to the principle of best practice.

New technologies accelerate changes, and innovations in the offer are necessary for preserving the market position. Investments in digital supply and realization of financial products and services have become decisive for business success. The Bank and the Group are improving the operational model that aligns access to the market and customers with advances in technology. Through continuous education, employees acquire new skills in the use of advanced technologies in order to provide better service and increase customer satisfaction. Human resource management has developed through an employee advancement and awards system.

Raiffeisenbank Austria retained the position of one of the leading credit institutions in the Croatian market. Together with the local Group, it provides quality access to financial products and services to clients. The sales network includes 63 branches and alternative electronic distribution channels. The branches are enhanced from being places for transaction execution into places for interactive customer communication.

Household demand for loans has modified due to a change in client preferences during a period of historically low interest rates. Demand for housing loans is stimulated by the state subsidy program for young families. In the corporate segment, the offer was supplemented by credit lines from domestic and international development banks. A tailored offer adjusted to their needs was developed for small- and middle-size entrepreneurs.

The local Group is in the process of integrating sales in order to optimize costs. In the area of savings and investment products, the process of reducing interest rates in money markets reached bottom in the last year.
Rising inflation has undermined the attractiveness of savings and deposit products, but interest in saving in voluntary pension funds has been maintained.

Adjustment of business operations to market conditions and customer requirements is essential for achieving the strategic goals and business plan. Optimal use of resources enhances the service quality and business performance. By engaging the efforts of all employees in the local Group, we continue to develop a comprehensive offer of financial services. I thank the management and all the staff for their dedication to achieving the mentioned goals. Finally, I would like to express my gratitude to all our clients and business partners, hoping to continue our successful co-operation.

Liana Keserić,
President of the Management Board

Keserić

Report of the Supervisory Board

Ladies and Gentlemen,

The year 2021 was a challenging one for the business operations of Raiffeisenbank Austria d.d. Zagreb. Adaptation to measures to combat the epidemic has resulted in changes in the organization of work process and access of clients to products and services offered by the bank and the associated Group of subordinate financial institutions. Reducing restrictions on mobility enabled a recovery in the service oriented business. Changes in customer preferences towards digital communication channels and the use of financial services increase the importance of continuing the process of digitalization, development of financial services and innovative sales and communication channels with customers.

In 2021, members of the Supervisory Board held 4 ordinary and 13 extraordinary meetings. The overall attendance rate for Supervisory Board meetings in the financial year 2021 was around 99 percent.

The Supervisory Board regularly and comprehensively monitored the business performance and risk developments at the Raiffeisenbank Austria d.d. Zagreb. Discussions were regularly held with the Management Board on the adequacy of capital and liquidity, as well as on the direction of the bank’s business and risk strategies. The Supervisory Board also dealt at length with further developments within corporate governance and monitored the implementation of corresponding policies. In course of its monitoring and advisory activities, the Supervisory Board maintained direct contact with the responsible Management Board members, the auditor and heads of the internal control functions. It also maintained a continuous exchange of information and views with representatives from supervisory authorities on topical issues.

Moreover, the Management Board provided the Supervisory Board with regular and detailed reports on relevant matters concerning performance in the respective business areas. Between meetings, the Supervisory Board maintained close contact with the Chairman and members of the Management Board. The Management Board was available when required for bilateral or multilateral discussions with members of the Supervisory Board, where applicable with the involvement of experts on matters being addressed.

The work undertaken together with the Management Board was based on a relationship of mutual trust and conducted in a spirit of efficient and constructive collaboration. Discussions were open and critical, and the Supervisory Board passed resolutions after fully considering all aspects. If additional information was required in order to consider individual issues in more depth, this was provided to members of the Supervisory Board without delay and to their satisfaction.

In the year 2021, the Supervisory Board discussed the following specific and/or important issues:

- business operations in the conditions of COVID-19 pandemic
- Euro adoption requirements and macroeconomic outlook in relation to Euro adoption
- AML activities and process improvements
- plan for fulfilment of capital and MREL requirements
- CNB/ECB regulatory supervision activities
- strategic activities in connection to business model review in order to reach strategic targets and adequate cost income ratio and return on equity
- sales process in connection to Raiffeisen Invest and merger activities in connection to Raiffeisen Building Society
- cyber security, information security and information and communication technology
- RBA sustainability strategy
- customer charges against the bank due to the loans with the currency clause in the Swiss Franc.

The Supervisory Board performed its duties in an appropriate manner in accordance with local regulations and the Articles of Association of the Bank.

After yet another challenging year due to the COVID-19 pandemic, I would like to take this opportunity to sincerely thank the Management Board and all employees of Raiffeisenbank Austria d.d. Zagreb for their unwavering efforts, and also our customers for their continued trust.

Supervisory Board

Macroeconomic environment

- Economic review

Last year was marked by the recovery of Croatian economy based on increased population mobility, both in Croatia and in other EU member states (hereinafter: the EU). Despite the strengthening of inflationary pressures, the growth of business activities in the Euro area was supported by the expansionary measures of the European Central Bank (hereinafter: the ECB). EU members have also used fiscal measures to boost demand and accelerate economic growth. Increased mobility of population was made possible by the offer of vaccines for protection against infection with the COVID-19 virus and the issuance of vaccination certificates, which in the function of passports removed obstacles for population within and outside regional and national borders. Population movements have stimulated demand for travel-related services, which has had a positive effect on growth rates in predominantly service-oriented economies, such as Croatia.

Fiscal policy measures remained active towards entrepreneurs who experienced a significant decline in activity due to the implementation of measures aimed at curbing the pandemic, but fiscal expenditure for these purposes declined in parallel with the increase in the economic activity. On the monetary policy side, Croatia intends to join the Eurozone at the beginning of 2023, so the decisions of the Croatian National Bank are synchronized with the ECB's measures towards the target date of accession. Therefore, monetary policy measures in the Euro area are also decisive for monetary developments in the financial markets in Croatia. Monetary authorities in the Euro area in 2021 maintained an expansionary direction in monetary policy with a positive impact on the financing of production and consumption.

Global economic growth since the aftermath of the pandemic has been slowed by disruptions in global supply chains. Reduced capacity for the production and transport of raw materials, energy and components for high-tech products in the period of lockdown has not increased compared to the recovery of demand in the post-opening period. Therefore, in activities with a high dependence on missing inputs, slower growth was achieved than in activities without these restrictions. Deficiencies in the global supply did not significantly affect the demand for tourist trips to Croatia. Significant growth in the number of tourist arrivals and overnight stays was achieved.

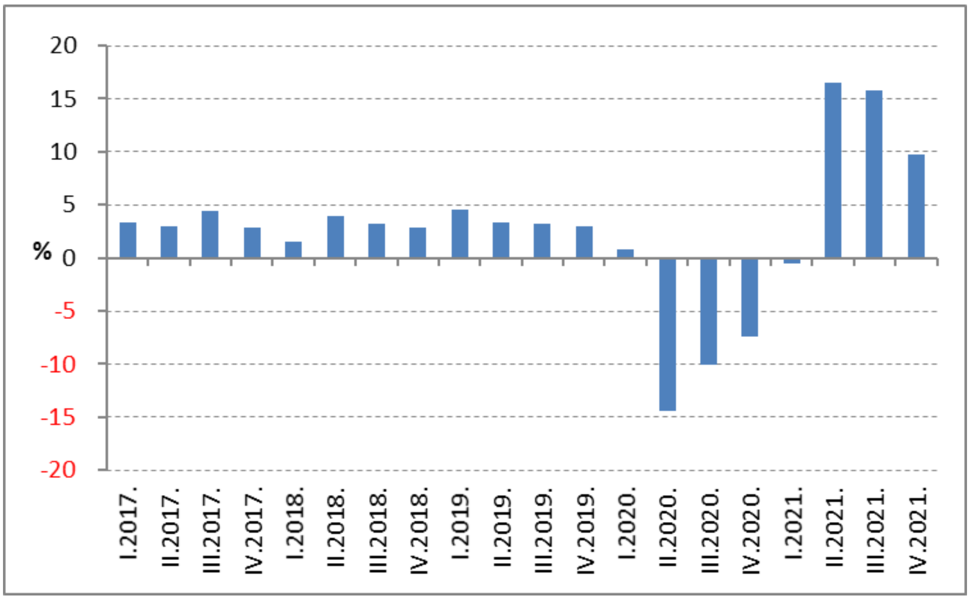
The lack of supply caused by disruptions in global supply chains in parallel with the implementation of monetary and fiscal policy measures to stimulate demand has intensified inflationary pressures. During 2021, the monetary authorities in the region reacted differently to the acceleration of price growth. For EU members outside the Euro area, the transition from expansive to more restrictive monetary policy measures began in the first half of year, while Euro area monetary authorities have long held that inflationary pressures on foreign supply are temporary due to disruptions in global supply chains. And temporary inflationary pressures do not jeopardize the achievement of targeted two percent per year inflation rate and thus the stability of financial system. Therefore, in 2021, the ECB did not reduce generous measures to strengthen liquidity, and it kept key interest rates at a historic low. In the closing of 2021, a shift in the ECB's monetary policy was announced, from an expansive to a neutral direction in 2022, and to a restrictive direction in 2023.

The stimulus for price growth on the demand side brings a new instrument for stimulating growth (Next generation EU). The instrument is designed to accelerate the exit from the pandemic recession (2020) and EU members will use it to finance projects that meet the prescribed conditions in the post-pandemic upswing period (2022-2023). Use will increase investment and, consequently, demand for goods and services, which will further encourage the growth of producer prices. Therefore, measures to curb inflation will have to be introduced faster and more vigorously than announced by the ECB's plans.

The finish of year was marked by the emergence of a new strain of COVID-19 virus (omicron), which significantly increased the number of infected people and again threatened the sustainability of health system. But, unlike previous waves of infection, it has not resulted in strengthening the restrictiveness of epidemiological measures. Therefore, the impact on economic activities and on the stability of public finances has remained relatively limited.

Macroeconomic environment (continued)

Gross Domestic Product, real growth rates, in %



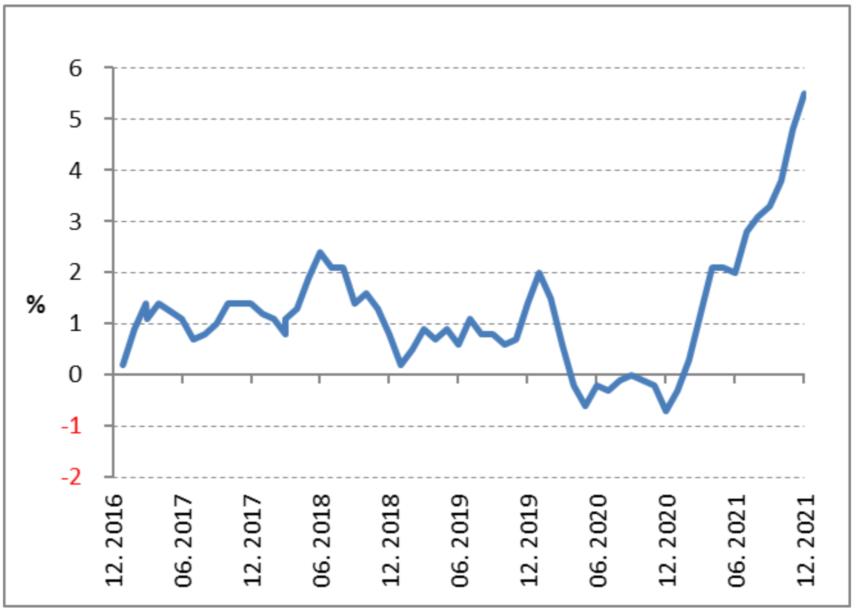
Sources: CBS, Raiffeisen Research

The highly euroised domestic financial system significantly depends on the movements in the Euro area. ECB interest rates have remained at historically low levels. The interest rate on deposits with the ECB is -0.5 percent and the basic interest rate is 0.0 percent. In the past year, the ECB has been increasing its liquidity in the financial system through programs to repurchase financial instruments on secondary markets and refinancing operations. The high level of liquidity in the financial markets increased the supply of capital and reduced the aversion of investors to risks, thus maintaining the pressure to lower interest rates on loans.

The offer on external financial markets is transferred to the capital markets in Croatia. The low level of interest rates in the Euro area enables the financing of public debt at a historically low financing cost. Under the influence of low interest rates on the financial markets, the cost of financing in the budget of the Republic of Croatia was reduced. Based on the positive indicators in the economy and the improvement of fiscal indicators, and the expected reduction in risk due to the forthcoming accession to the Euro area, the rating agency Fitch raised the credit rating of the Republic of Croatia to BBB (second level investment rating) with positive prospects. S&P has not changed its rating and is still BBB- (first level investment rating) with a stable outlook. Only Moody's kept the rating for the Republic of Croatia with Ba1 (highest speculative rating) with a stable outlook.

Macroeconomic environment (continued)

Consumer Price Index (inflation rate), annual changes, in %



Sources: CBS, Raiffeisen Research

- Global financial market situation and the impact on Croatia

Unlike the previous year, in which the COVID-19 pandemic triggered unprecedented lockdowns over the globe and resulted in a sharp slowdown in economic activity, 2021 saw a rapid economic recovery supported by a relaxed monetary policy of globally important central banks. As conventional monetary policy measures were mostly exhausted even before the pandemic, central banks stepped up unconventional measures and increased the liquidity of financial system through the purchase of securities on secondary markets, consequently lowering the real cost of capital to negative territory.
Increased supply in financial markets has accelerated the recovery of economic activity in 2021, but also strengthened the imbalance between supply and demand in the real sector, where pandemic lockdowns have resulted in disruptions in global transport chains. Therefore, the global supply of goods and services is insufficient in relation to the growing demand driven by relaxed access of consumers and investors to cheap sources of financing. The result of the imbalance in supply and demand is an increase in prices, which is transferred from the financial markets to the real estate markets as well as to the goods and services markets.

The response of globally leading central banks to rising inflation has been slowed by efforts to support economic recovery after the pandemic shock. In the first half of year, the prevailing views of monetary authorities were that the rise in prices was temporary due to the slow normalization of global supply chains after lockdowns in pandemic, and therefore the lack of supply of goods and services in relation to demand is temporary. In the second half of year, the statements of central banks were gradually revised under the pressure of persistent trend in price growth, so towards the end of year they began to abandon relaxed monetary policy measures. The US Fed began reducing the redemption of securities in late 2021 and intends to abandon it by the end of first quarter 2022 and then moves to increase the base interest rate. On the other side of Atlantic, the European ECB is starting to reduce pandemic securities repurchase programs (PEPP, PELTRO and TLTRO III) with a view to abandoning it completely by the end of third quarter 2022, but with a compensatory effect on rising APP. ECB does not intend to start raising base interest rates before 2023, which will extend the period of capital supply at real negative interest rates while maintaining inflationary pressures.

Macroeconomic environment (continued)

Developments in external financial markets have a significant impact on the operating conditions of credit institutions in Croatia. Due to a high degree of euroization of the financial system and the targeted entry of Croatia into the euro area at the beginning of 2023, developments in the euro area have the greatest impact on the local financial market. The European Central Bank (ECB) runs the monetary policy in the euro area.

In 2021 the ECB base interest rate was 0 percent, while the interest rate on deposits held by banks in the euro area with the ECB was -0.5 percent. Market interest rates in the euro area were negative during 2021 as were the yields on bonds of prime issuers in the euro area. Positive yields were only earned on issues with maturities over 10 years. This way, the expansionary monetary policy, through negative market interest rates in the euro area, resulted in declining yields on financial assets.

Banks and other euro area investors looking for positive yields have increased demand for higher risk debt instruments. Yields on croatian bond issues in 2021 achieved historicaly lowest level.

The Croatian financial market is markedby a constant surplus of liquidity. Yields offered on term deposits have equalized to yields on demand deposits Given the lack of attractiveness of the yields on term deposits, an increasing number of clients do not rollover their contracts on maturity. As a result, the level of demand deposits in banks is growing. This opens a maturity gap in bank balance sheets. The supply of loans on the Croatian market was higher than demand, so the pressures to lower interest rates on newly originated loans were strengthened.

- Macreconomic indicators

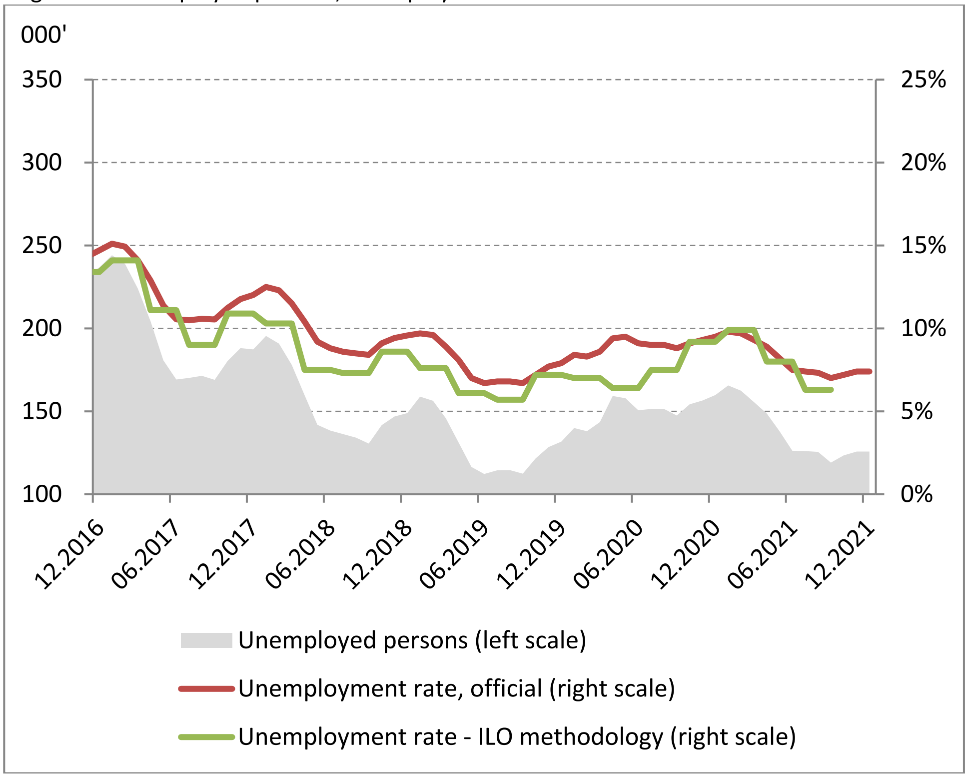
Achieved real GDP growth of 10.4 percent is the result of increased household consumption after the opening of economy, growing investor optimism due to increased demand and easier financing from the Next Generation EU program and the new multiannual framework for the use of EU funds in 2021-2027, and the growth of exports of goods and especially services realized in the summer tourist season.

Consumer price growth accelerated during the year due to stronger demand in global markets and supply-side deficiencies due to disruptions in production and transportation. The main pressure on consumer price growth came from the price of energy, and under the influence of disruptions in global supply chains, it was transferred to the prices of raw materials and intermediate goods. Due to the use of stocks of raw materials and intermediate goods in the production of goods for final consumption, the growth of producer prices, which escalated in the first half of year, was transferred to consumer prices with a time lag. In the second half of year, the mitigating effects of inventories on consumer prices were mostly exhausted, so consumer price growth accelerated to above 5% year on year.

The labor market in 2021 was marked by increased demand during the summer tourist season, which reduced the number of unemployed persons. An additional incentive to reduce unemployment comes from the wider EU market. The EU's economic recovery boosted labor demand during the year and increased pressure on economic migration within the EU. As a result, supply in the local labor market in Croatia has decreased. The structural mismatch between supply and demand is further exacerbated by the growth in the construction sector, which increasingly finds the need for additional labor in foreign markets. The scarcity of the supply of adequately educated workers increases the pressure to reduce taxes and contributions that burden labor incomes, but in the previous year there were no changes in the amount and structure of taxes and contributions.

Macroeconomic environment (continued)

Registered unemployed persons, unemployment rate



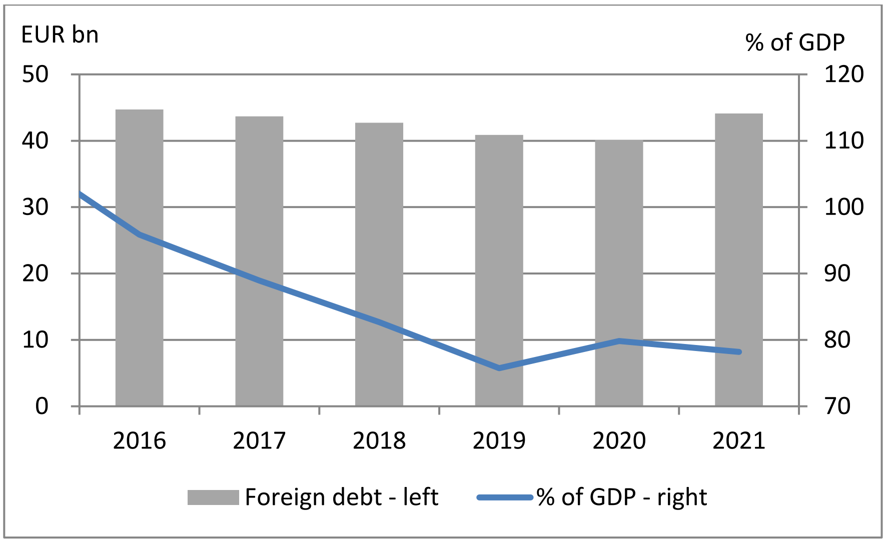
Sources: CSB, CES, Research RBA

The strong growth of tourism-related activities resulted in a positive balance on the current account of the balance of payments. Thanks to the relatively favorable epidemiological picture in the central part of the year and the increased arrival of foreign tourists in the summer season, revenues from tourist spending of foreign guests exceeded the achievements of the last year before pandemic. The positive balance of the current account of the balance of payments is also enabled by the growing net inflows from remittances sent by the growing number of economic emigrations, as well as the growing use of funds from EU funds. Net payments of capital income generated by non-resident companies operate in the opposite direction. In the previous year, the ban on the payment of dividends to credit institutions was lifted, which allows payment from current profits as well as from retained earnings in the ban period. The negative balance on the goods sub-account was expanded. Rising prices of imported energy and raw materials increased the value of imports without full compensation on the price of exported goods. Furthermore, the achieved growth of the economy results in an increase in personal and investment consumption, which is reflected in the real growth of imported goods.

High liquidity of the financial system has resulted in a sufficient supply of credit for potential private sector borrowers. Excess liquidity has kept financing prices at historically low levels despite growing inflationary pressures. The economic growth stimulates the demand for financing working capital and investments, but in the conditions of excess liquidity in the domestic financial market, there was no pressure on private sector borrowing abroad, both from financial institutions and companies. The positive impact on external borrowing came from the government, which, in addition to domestic debt, financed the growth of public debt by additional borrowing in external financial markets. Although the total amount of external debt increased in 2021, due to the extremely strong growth of economic activity, the relative indicator of external indebtedness to GDP as an indicator of balance sheet imbalance decrease

Macroeconomic environment (continued)

Gross external debt



Sources: CNB, Raiffeisen Research

- Fiscal and monetary movements

During the pandemic period, the process of fiscal consolidation was interrupted. In the first year after the pandemic, there was a structural deficit in the budget, but due to faster economic growth, the public debt-to-GDP ratio decreased. On the revenue side of the budget, revenues from indirect taxes (VAT and excise duties) have significantly increased, which reflects trends in consumption, and at the same time transfers the impact of rising consumer prices on budget revenues. Revenues from social contributions convey positive trends in the number of employees and the achieved wage growth. Total direct tax revenues depend on income tax inflows.

In the structure of expenditure side of the budget, expenditures for financing measures to help the economy are reduced. Government borrowing costs, expressed as interest expenses, are declining due to the general decline in market interest rates and debt refinancing activities. Expenditures for public sector investments are increasing due to increased investment activity of state with the use of EU funds. Regular expenditures on social benefits increase due to the adjustment of pensions with rising consumer prices. And rising consumer prices amplify demands to increase spending on public service employees.

Monetary policy remained committed to maintaining the stability of HRK/EUR exchange rate. The absence of pressure on the HRK EUR exchange rate towards higher values enabled the continuation of the implementation of expansionary monetary policy measures. 2021 ended with an average EUR/HRK exchange rate of 7.524 with a low level of volatility during the year. By linking monetary policy with the ECB's expansionary measures, favorable financing conditions have been ensured in the domestic financial market. The average daily liquidity surplus in local currency was above 10 percent of GDP. Financial markets were full of liquidity, and interest rates fell to a historic low.

It is likely that at the beginning of 2023, the euro will become the official currency in Croatia. In the period of preparation for entry into the Euro area by staying in the ERM II, the central rate of HRK / EUR was set on 7.5345. If there are no surprises, Croatia will use this exchange rate to exchange currencies and thus achieve one of two important political goals. In addition to joining the Eurozone, approval for entry into the Schengen area of open borders is expected next year.

Macroeconomic environment (continued)

Summary of macroeconomic indicators for the period from 2017 to 2021

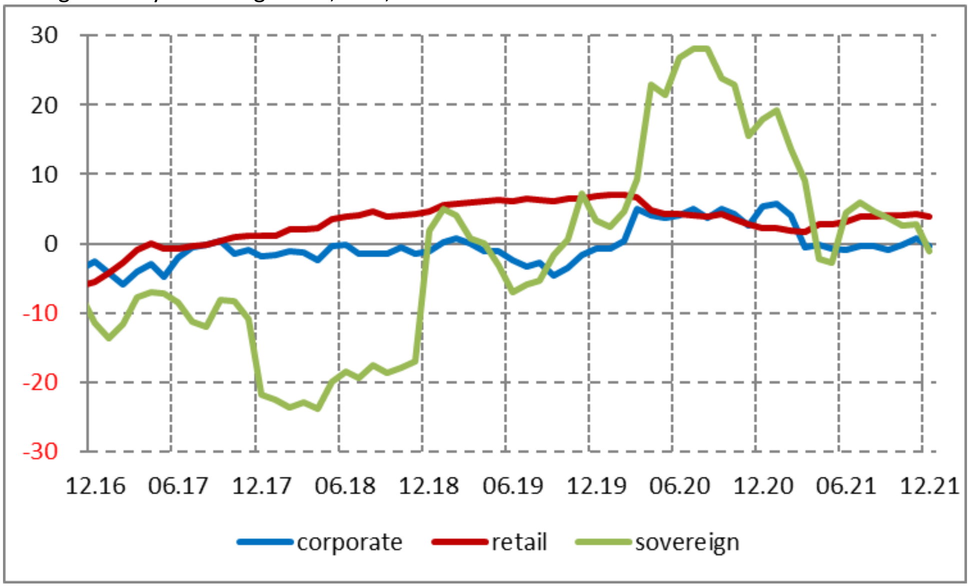
	2021	2020	2019	2018	2017
GDP & Production					
Gross Domestic Product, % (constant prices)	10.4	-8.1	3.5	2.9	3.4
GDP at current prices (EUR millions)	57,342	50,225	55,604	52,718	49,913
GDP per capita at current prices (EUR)	14,747	12,794	14,008	13,153	12,344
Retail trade, % real annual changes	12.1	-5.5	3.6	3.9	4.4
Industrial production, % annual changes	6.7	-3.4	-2.7	0.6	-1.0
Prices, Employment and Budget					
Consumer Prices, %, end of period	5.5	-0.7	1.3	0.8	1.2
%, average	2.6	0.1	0.8	1.5	1.1
Producer Prices, %, end of period	19.7	-1.2	1.5	0.6	2.1
%, average	9.7	-2.0	0.8	2.3	2.1
Unemployment rate (official rate, avg) *	8.1	9.0	7.8	9.9	12.4
Unemployment rate (ILO, avg)	7.2	7.5	6.5	8.4	11.2
Average net wage, in HRK *	7,128	6,763	6,582	6,241	5,984
General Government Balance, % of GDP [1]	-3.9	-7.4	0.3	0.2	0.8
Public Debt, HRK bn [1]	353.9	330.2	293.2	286.6	285.4
Public Debt, % of GDP [1]	83.5	87.3	71.1	73.3	76.7
Balance of Payment and External Debt					
Goods and Services Exports, EUR million	29,474	21,122	28,242	26,103	24,624
% change	33.3	-25.2	8.2	6.0	10.7
Goods and Services Imports, EUR million	30,023	24,531	28,390	26,520	24,273
% change	14.7	-13.6	7.1	9.3	12.0
Current Account Balance, % of GDP	2.4	-0.1	3.0	1.9	3.5
Official International Reserves, EUR million, eop	25,022	18,942	18,560	17,438	15,706
Official International Reserves, in terms of months of imports of goods and services, eop	9.9	9.5	7.2	7.4	7.4
Foreign Direct Investment, EUR million, [2]	2,000	1,279	1,212	1,057	447
Tourism - night stays, % change	72.1	-55.2	1.8	4.0	10.5
External debt, EUR billion	44.1	40.1	40.3	42.6	43.5
External debt, as % of GDP	77.0	79.8	72.4	80.8	87.2
External debt, as % export of goods and services	149.6	189.8	142.7	163.2	176.7
Monetary and Financial Data					
Exchange rate, eop, USD / HRK	6.64	6.23	6.64	6.50	6.20
avg, USD / HRK	6.36	6.66	6.63	6.29	6.60
Exchange rate, eop, EUR / HRK	7.52	7.54	7.44	7.41	7.44
avg, EUR / HRK	7.52	7.53	7.41	7.42	7.46
Money (M1), HRK billion, eop	189.4	160.4	137.2	120.0	99.4
% change	18.0	16.9	14.3	20.7	19.1
Broadest money (M4), HRK billion, eop	403.3	364.5	333.3	324.0	307.2
% change	10.7	9.3	2.9	5.5	2.1
Credits, HRK billion	245.8	238.5	229.5	223.2	218.9
% change	3.0	3.9	2.8	2.0	-1.2
Treasury bills rate 12m, %, avg	0.02	0.06	0.08	0.09	0.41

1 according to the ESA 2010 methodology
2 including round-tripping
eop - end of period; p avg - period average

1. Market position

Raiffeisenbank Austria d.d. (the Bank) and a local Group of subsidiaries are registered for operation on the Croatian financial market. The Bank is a systemically important credit institution. By total assets, the Bank was ranked fifth in the market at the end of 2021 with an eight percent market share. Stambena štedionica (Building Society) is a credit institution which is subsidiary of the bank. The process of merging the Building Society into the bank is planned to be completed in 2022. The bank also has a subordinate financial institution for leasing activities, pension funds management company and pension insurance company. Subordinate financial institutions are significant for the local market.

Loan growth by client segments, in %, annual level



Sources: CNB, Raiffeisen Research

The period of accelerated economic growth and intensified inflationary pressures in the past year did not result in an increase in demand for loans from businesses and consumers. Only housing loans grew faster due to government subsidies for repayment of housing loans for younger age debtors on the one hand, and the accelerated growth of prices in the real estate market on the other hand.

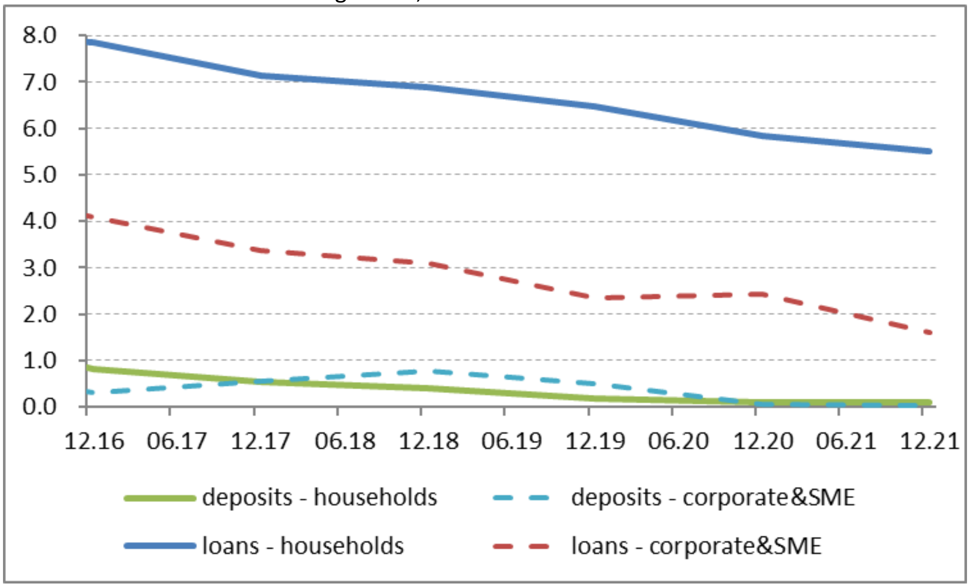
The increased level of uncertainty about the reintroduction of measures directed to lockdown of economy with restrictions on the operation in service segment, has a negative impact on the demand of companies for investment loans. Due to the delay in investment, entrepreneurs are reducing the demand for new loans and increasing liquidity reserves. Borrowing for the working capital purposes is adjusting to short-term business levels, as long-term planning is still uncertain due to the possibility of a re-escalation of epidemic and the introduction of market-closing measures for some entrepreneurs, especially in the services sector.

Despite the offer of loans at historically low interest rates, in the conditions of uncertain financial future, consumers find it harder to decide to use the loan. They adjust spending to disposable income. In the past year, the growing consumption of the population was financed from current income and additionally from savings realized during the lockdown period due to the pandemic, because then consumers could not even access the use of services due to bans on the supply side. Demand for housing loans has been rising in waves over deadlines for applying for government subsidies.
As opposed to households and corporate placements, which have tended to stagnate under increased uncertainty, government borrowing has increased due to additional needs to finance health system losses and measures to help the economy affected by lockdown. Due to the growing excess liquidity in the system, higher government borrowing from banks did not have the effect of squeezing the private sector out of lending, nor did it have an impact on the interest rates on loans. The supply of capital on the Croatian financial market in 2021 increased under the influence of growing excess liquidity in the system.

1. Market position (continued)

Demand for loans was not sufficient to absorb market surpluses on the capital supply side. Consequently, the excess of supply over demand increased the pressure on the price of capital. Money market interest rates have fallen to historically low levels, as have interest rates offered by banks on customer deposits. During the year, interest rates on loans decreased, which eased the financial position of borrowers in a sensitive period with increased cost of living due to accelerated growth in consumer prices.

Interest rates in Croatian banking sector, new contracts in %



Sources: CNB, Raiffeisen Research

The results of the Bank and Group depend on financial market conditions and changes in the real sector. Achieved economic growth has reduced the risk of placements and high liquidity improves the collection of receivables from customers in the sensitive phase of the ending of moratorium. The moratorium on loan repayments has been used for the longest period by clients with a strong seasonal impact on revenue generation, such as tourist services. The expiration of moratorium coincided with the realization of increased revenues in the summer season, which eased the financial burden on debtors from debt repayment.

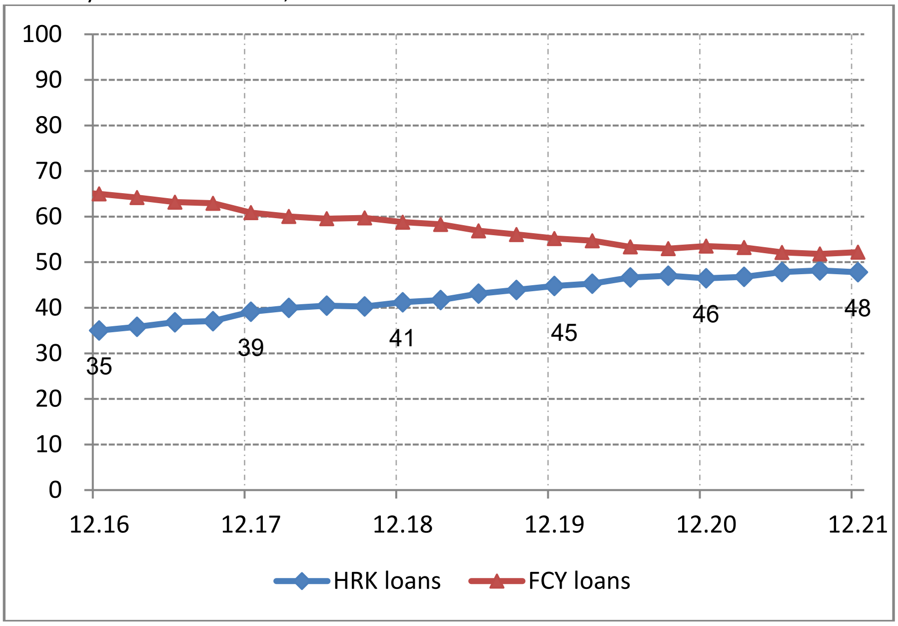
Reduced credit risk enabled the release of part of provisions for losses, which banks formed for placements in the previous period. Accelerating growth of economy in the conditions of excess liquidity, further narrowed interest margins, but the increase in the number of transactions related to the growth of business activities enabled the realization of higher fee income. On the expenditure side, banks began to materialize the positive effects of investments in remote sensing technology, and in the digitalization of business processes and customer relations. Costs for business premises have been reduced while keeping communication costs at approximately the same level.

The absence of yields on deposits due to lowering interest rates to a narrow range around zero, did not slow down the growth of deposits in banks. Due to the high aversion to investing in riskier types of financial assets, clients continued to increase their deposits in banks. The growth of corporate deposits results from delayed investments and the strengthening of liquidity reserves in companies. The surplus of deposits lowered the interest rates offered by banks on time deposits according to the level they offer for demand deposits. Due to the unattractive return on time deposits, clients often keep funds in demand accounts after the expiration of the term deposit. As a result, the share of time deposits in total customer deposits with banks fell below a quarter of total deposits.
Stable growth of customer deposits has been enabled by generous financing from primary sources. Therefore, the share of secondary sources has become negligible for the formation of the price of capital in the domestic financial market. Fulfillment of MREL requirements will begin in 2022, so at the end of 2021, banks has started the issuing of debt instruments that meet MREL requirements.

1. Market position (continued)

The share of straight HRK loans in the currency structure of loans stabilized. Historically, the difference in the interest rates on foreign currency loans in relation to HRK loans has motivated borrowers to borrow in foreign currency. As the date for the introduction of euro approaches, the difference narrows, and clients are demotivated to borrow in foreign currency. Under the pressure of growing excess liquidity in the system, the gap between the interest rates on HRK loans and loans in euros further narrowed. In the case of HRK loans with long-term repayment, the introduction of euro brings to debtors the uncertainty about the conversion of HRK loan into the euro. Therefore, an increasing number of borrowers are choosing to borrow in euros.

Currency structure of loans, in %



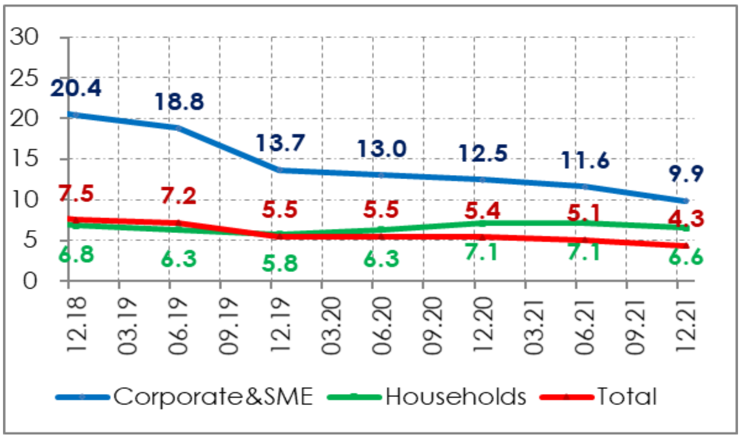
Sources: CNB, Raiffeisen Research

In the conditions of historically low interest rates for loans, the demand for loans with longer repayment term and with fixed interest rates rose. Clients thereby attempt to fix the financing cost at the low level also in the later years of loan repayment, when they expect the market interest rates to rise. Intensified use of long-term loans with fixed interest rates (in the initial repayment period or until maturity) results in widening of the gap in the maturity structure of the banks' balance sheet because of simultaneous lowering of the average maturity on the side of funding sources.

In retail banking, the demand for loans and the propensity to save depend on the movement of real incomes and the expected value of household assets. The real burden of loan repayment is decreasing due to lower interest rates on loans and, in the long run, due to inflation. On the other hand, subsidies for housing loans for young people have raised real estate prices. Since 90% of the population of Croatia owns the apartment in which they live, rising real estate prices increase the value of property for the majority of population. However, the uncertainty about possible reversals in the development of epidemic and the possible introduction of lockdown measures outweighed all other factors in creating demand for credit. Therefore, demand remains suppressed until the end of epidemic becomes completely certain, and trends in the economy stabilize in a positive direction.

1. Market position (continued)

NPL ratio, eop in %



Sources: CNB; Raiffeisen Research

The banking system is significantly exposed to the country risk of the Republic of Croatia. Factors affecting a high country risk in banks' assets are not only direct or indirect government borrowings in the domestic financial market, but also the regulations by which the central bank maintains financial stability. Additional factors of country risk exposure include excess liquidity maintained by banks in the accounts with the CNB, investment in debt instruments of the Republic of Croatia, direct government borrowing from banks and other financial institutions, and government guarantees for loans taken by public or private companies. Due to the mandatory reserve requirement, banks maintain part of their liquid assets in their accounts with the Croatian National Bank. Reserve requirement is 9 percent of bank liabilities. The CNB pays no interest on the reserve requirement accounts.

Positive developments in the real sector and a reduced likelihood of repeating the lockdown had a positive effect on the Bank's turn towards relaxed credit policies. Market conditions for achieving credit policy objectives are favorable, and the achieved economic growth reduces the level of risk in the corporate sector. In the household sector, the number of employees increased, as did the average salary. Reducing interest rates on loans increases the creditworthiness of borrowers and the economic recovery increases the optimism of producers and consumers. The quality of retail loan portfolio is better than that of companies. Favorable developments in the economy reduce credit risks on the part of companies but also on the part of households, as their receipts largely depend on developments in the economy.

2. Business activities of the Bank

Raiffeisenbank Austria d.d. Zagreb (hereinafter referred to as: the Bank) was incorporated in December 1994 as the first foreign-owned bank in Croatia, with the strategic objective of building a comprehensive financial services offering to clients. Since 1999, the Bank has built a sales network and, parallel to the opening of branches, it established subsidiaries which provide financial services in the areas regulated by special regulations (hereinafter: the Group). At the end 2021 the Bank provided customer service through 63 branches and through digital sales channels. The development of digital sales channels is reflected in the constant process of innovation in communication with customers and access to bank services. Number of users of direct bank services via Internet and mobile applications reached 53 thousand in legal entities and 272 thousand in retail.

The Bank operates in accordance with the rules of local regulators supervising the operations of credit institutions (Croatian National Bank) and financial institution services (Croatian Financial Services Supervisory Agency). Credit institutions are supervised according to the single supervisory criteria for the euro area with the leading role of the European Central Bank. All members of the local Group are registered in Croatia and operate in accordance with Croatian regulations.

2. Business activities of the Bank (contrinued)

The Bank adjusts credit policies to changes in the market. In a period of strong economic growth, the average financial strength of borrowers is improving, so lending conditions are adjusted to reduce the general level of risk. Adjustments to credit policy criteria are consistent with changes in mobility and other non-economic factors that may affect the creditworthiness of borrowers during the repayment of credit obligations.

Over the previous years, the bank has adapted the business model successfully in the direction of business digitalization, strengthening of synergistic effects based on new technologies while simultaneously strengthening the focus on customer satisfaction. The strategic target is to be the leading bank in the market by satisfaction of legal entities and among the first three banks by satisfaction of private individuals. Along with digital transformation, optimization of business processes and complete orientation to enhance customer experience, in the changed conditions of operating and work due to reduced mobility, the highlight is also on the satisfaction and engagement of employees, data quality management and adjustment of the bank and Group to the requirements of adaptive and agile methodology.

At year-end the bank had 1,649 employees. The number of employed decreased due to change in the operating business model. Increased use of digital sales channels and self-service devices lowers the need for workforce in the jobs of lower complexity and raises the needs for specialists in use of advanced technology platforms. The employee structure adjustment process will continue also in the coming years. The number and structure of employees are defined under a long-term strategic plan and are in compliance with the regulatory requirements and business plans. The bank is managed by the Management Board, which has four members in the year 2021.

3. Financial result of the Bank

Total assets at the end of 2021 amount to HRK 41,562 million (2020: HRK 37,164 million) for the Bank stand alone. Compared to the previous period, an increase of HRK 4,398 million (2020: HRK 3,088 million) was realized. Customer loans realized an increase of HRK 1,562 million (2020: HRK 505 million), while placements to liquid types of assets increased by HRK 2,844 million. The increase in loans was financed from growing primary sources of financing, and the surplus of deposits spilled over into liquid assets. The share of liquid assets and investments in financial assets without loans within total assets increased to 47 percent of total assets and the share of loans to customers decreased to 49 percent (2020: 51 percent). Total loans to customers amounted to HRK 20,523 million (2020: HRK 18,961 million) at the end of the year having increased by 8 percent year-on-year (2020: 3 percent).

Demand for consumption loans in cash dropped sharply under lockdown conditions and only began to recover in the second half of last year, driven by rising inflation. The decline in demand for consumption lending was offset by an increase in demand for housing loans. In addition to state subsidies for housing loans for the younger population of beneficiaries, the growing price of construction materials and the rehabilitation of the consequences of the 2020 earthquakes had a positive impact on the demand for housing loans. The reduction of interest rates on loans has a positive effect on the assessment of creditworthiness, so the number of potential users of housing loans is gradually increasing and contributing to the growth of demand.

The expected entry of Croatia into the Euro area resulted in a change of currency structure of loans in the household segment. The long-term tendency of the growth of HRK loans share has stopped under the pressure of increase in long-term loans, which should be mostly repaid in euros after the introduction of EUR. In 2021, housing loans led the growth of retail loans. Loans to households indexed to foreign exchange rates increased by 29 percent year on year, while HRK loans decreased by 6 percent.

Awareness of interest rate risks has increased among the population. Demand for fixed-rate loans has faced growing inflationary pressures and expected interest rate growth in the future. In the case of loans with a medium maturity, consumers mostly agreed on a fixed interest rate to maturity. However, for housing loans with a longer repayment period, contracting a loan with a variable interest rate prevails. Favorable interest rate hedging prices motivated clients to contract a temporarily fixed interest rate in the initial repayment period with a long repayment period.

3. Financial result of the Bank (continued)

Bank financial highlights for the period from 2017 to 2021

	Bank 2021 HRK millions	Bank 2020 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions	Bank 2017 HRK millions
From the Balance sheet 31 December					
Total assets	41,562	37,164	34,076	32,629	31,379
Shareholders' equity	5,143	4,748	4,675	4,226	4,458
Customer accounts	32,821	28,328	25,628	25,380	23,020
Loans to customers	20,523	18,961	18,456	16,099	16,453
From Income statement and other comprehensive income for the year ended 31 December					
Operating income	1,349	1,276	1,430	1,353	1,439
Operating expenses and depreciation	797	819	840	884	1,105
Profit before tax	542	173	436	239	475
Net profit for the year	449	132	438	219	396

Total customer deposits increased by HRK 4,493 million (2020: HRK 2,700 million) in the previous year. Deposits of companies and other non-credit institutions recorded a 19 percent increase (2020: 16 percent), while 13 percent (2020: 13 percent) increase was recorded in retail segment. Private individual deposits amounted to HRK 17,371 million (2020: 15,361 million), accounting for 48 percent (2020: 47 percent) of total liabilities of the Bank at the end of the year. With the prevailing excess liquidity, the Bank has been seeking to motivate clients to invest in higher risk financial assets. Due to lower returns on alternative investment types and risk aversion of private individuals, total retail deposits did not decline. On the contrary, they increased with the continuation of the maturity structure shift. The share of demand deposits reached 78 percent (2020: 71 percent) of total deposits in retail, and as much as 97 percent (2020: 95 percent) in corporates and other non-credit entities.

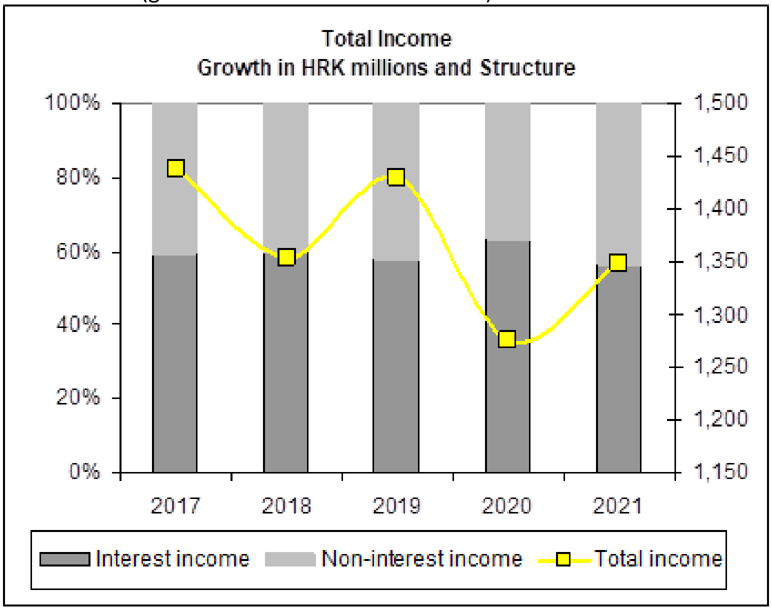
Share capital (T1) of HRK 5,143 million (2020: HRK 4,748 million) increased by 8 percent (2020: 2 percent) compared to the beginning of the year. The main contribution to the increase in share capital comes from the retained profit. Last year, the regulator lifted the ban on dividend payments to credit institutions, which it imposed during the period of economic closure due to the pandemic. At the end of year, the Bank's total capital adequacy ratio was 22.71 percent (2020: 23.77 percent). In the process of adjusting to the Minimum Capital Requirements and Eligible Liabilities (MREL), the Bank issued a bond in the amount of EUR 130 million in November, thus fulfilling the first transitional requirement for 2022. This further strengthened the Bank's resilience to systemic risks.

The Bank's business result in 2021 is accompanied by positive trends in the economy. The general level of risk was reduced, so the negative contribution of losses from risk provisions amounted to only HRK 10 million. Operating income increased by 6 percent (2020: 11 percent lower) and amounted to HRK 1,349 million (2020: HRK 1,276 million), and the realized profit after tax amounted to HRK 449 million (2020: HRK 132 million).

High liquidity prevailed in the financial markets, which resulted in a reduction in interest rates contracted by the Bank on the placement side as well as on the liabilities side. Net interest income is lower by 6 percent on an annual basis due to falling interest rates on loans and yields on debt instruments, and due to an increase in the share of liquid assets on which the bank does not have a positive interest margin. Realized net income from fees is 30 percent higher. Fee and commission income mainly relates to foreign exchange gains and fees in payment transactions and card operations. Turnover in the card business increases during the tourist season. Net income from trading in financial instruments and other income are up 20 percent year on year.

3. Financial result of the Bank (continued)

Total income (growth in HRK mln and structure)



Total operating expenses amount to HRK 797 million (2020: HRK 819 million), down by 3 percent year-on-year. In the cost structure, staff costs were reduced, and material costs and communication services related to the digitization process were increased. In the previous year, credit institutions were not obliged to pay insurance premiums because the level of coverage of insured deposits with a fund formed from paid premiums reached the prescribed level of 2.5 percent.

Provisions for litigations against the Bank had a significant impact on losses fir risk impairments. Most lawsuits against the bank relate to individual lawsuits filed by consumers for which the Bank granted loans indexed to Swiss franc in the period from 2004 to 2008. In 2021, the total costs based on the risk of litigation amounted to HRK 160 million (2020: HRK 105 million). Provisions costs in other business segments relate to identified and unidentified loan losses. The achieved economic growth has positive effect on the creditworthiness of borrowers. On the other hand, the increase in prices in the real estate market makes it easier to compensate for losses from real estate taken as collateral for the collection of receivables.

4. Business development of the Bank

The founder of the Bank is Raiffeisen Bank International (RBI), an Austrian banking group managing a network of banks and related financial institutions in the Central and Eastern Europe (CEE) region. Affiliation with a strong international banking group offering a broad-range financial service enables the transfer of experience gained from years of operations in the developed financial and emerging markets. Positive synergistic effects are also achieved by introducing more advanced operational support and setting high standards of quality in customer relationships, thus enhancing the service offer and encouraging employee innovation.

The general trend of digitalization and automatization in the financial services sector will lower operational risks, and the bank plans to adjust its business according to the changes in the financial services markets. Development of financial services offer has been stimulated by modernization of communication channels and services sales channels. These processes do not only increase the number and the functionality of such self-service devices but also reduce the need for staff performing routine sales and for staff in administration jobs. Automatization will, on the one hand, reduce the errors in data processing, and on the other, labor costs.

4. Business development of the Bank (continued)

Along with the activities aimed at increasing operating income, business development is based on implementation of measures to improve productivity and safety standards, introduction of advanced technologies and business process management tools. The available professional, organizational and technological resources are focused on increasing the quality of service and achieving lower unit costs per transaction. Investments in technology and business process development enable an innovative offer and development of customized financial service.

The Bank's priority in developing business is to adapt to changes in the regulation of credit and other financial institutions. This is ensured by enhancing functionalities of the sales and support system. The focus is also on the requirements for developing business processes and support functionalities while adjusting the bank offer to changing market conditions. The improvements are also designed in order to streamline the Bank's business processes within the affiliated international financial group (RBI). In future operation the Bank expects a moderate increase in the demand for loans, with the entry of new competitors providing customer service. Therefore, development activities are geared towards increasing service quality and innovation, and this is where we expect the strongest competition in the coming period.

The strategic goal of business development of the Bank is the introduction of innovative sales channels for standard and new types of services sold on digital platforms. This way, the Bank and the local Group adapt to customer demands while continuously maintaining a high level of service quality and security of client transactions.

The bank has started the process of merging the associated company Raiffeisen stambena štedionica d.d. which will be completed in 2022.

5. Research and development activities

In 2021, the Bank improved business processes and support, but did not participate in research and development activities. The Bank has maintained its position among leading financial institutions in the application of advanced customer access technologies.

6. Information on repurchase of own shares

The Bank did not repurchase its own shares in 2021.

7. Bank subsidiaries

The Bank commenced operations on the Croatian financial market in December 1994, being established as a universal commercial bank. Since 1999, it has been developing its local Group of subsidiaries. The development of the Group is aimed at providing a comprehensive range of financial services to clients.

At 31 December 2021 the local Raiffeisen Group consisted of the following legal entities, which are wholly owned by the Bank:

- Raiffeisen stambena štedionica d.d.
- Raiffeisen mirovinsko društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.
- Raiffeisen mirovinsko osiguravajuće društvo d.d.
- Raiffeisen Leasing d.o.o.
- Raiffeisen Consulting d.o.o.
- Raiffeisen Invest d.o.o.

As of January 2022, Raiffeisen Invest d.o.o. is no longer a member of the local Group, as it was taken over by a member of the RBI Group - RCM.

7. Bank subsidiaries (continued)

Raiffeisen stambena štedionica d.d.

The main activities of the Building society are:

- Receiving cash deposits in domestic currency for special purpose housing savings with the possibility of arranging a safeguard monetary clause;
- Receiving government incentives and booking them in the savings accounts of savers in accordance with the Act on building society savings and the government incentive for building society investments;
- Granting loans for the purposes referred to in Article 8 of the Act on building society savings and the government incentive for building society investments;
- Exceptionally, Stambena štedionica may also obtain additional funds on the financial market only to meet its obligations under the concluded housing loan agreements and to settle its obligations under the concluded building society investment contracts, if the funds obtained from the provision of the activities referred to in the previous paragraphs are insufficient.

Business in 2021

Although the advancing of new volumes (loans to households) was halted due to the integration process, an excellent positive result was achieved largely due to a decrease in interest expense on private individual deposits, a positive MtM on contracted Interest rate swaps and a decrease in operating expenses.
In 2021, the trend of decreasing lending and deposit interest rates (a greater decline in deposit interest rates in view of the expiration of 5 years of the savings cycle with an extension at new lower interest rates). Interest income amounted to HRK 33.5 million (2020: HRK 37.7 million) while interest expense amounted to HRK 14.6 million (2020: HRK 21.8 million), net income from fees and commissions amounted to HRK 1.9 million (2010: HRK 1.3 million).
Operating expenses were reduced due to the integration process and amounted to HRK 15.2 million (2020: HRK 19.4 million).
The Company's total assets at 31.12.2021 amounted to HRK 1,119.1 million (2020: HRK 1,217.9 million).
In the funding structure, capital and reserves amount to HRK 112.1 million (2020: HRK 100.2 million), and total liabilities amount to HRK 1,007.0 million (2020: HRK 1,117.7 million), the largest portion relating to collected household deposits in the amount of HRK 950.4 million (2020: HRK 1,048.9 million).
The Company is adequately capitalized in relation to the risk profile and aligned with regulatory capital requirements.
The Company's clients are private individuals.

Future development

Throughout 2021, Stambena štedionica was engaged in activities related to the merger with RBA, the owner of the Stambena štedionica, which is planned for the first half of 2022. The decision on the merger was approved by the CNB and the Ministry of Finance.

Risk management

<u>*Credit risk*</u>

Credit risk is the risk of loss resulting from the default on the debtor's obligation to the Company.

The Company is exposed to credit risk through lending and investment activities. In order to manage the credit risk level, the Company deals with clients of good creditworthiness, and obtains further safegards through adequate collateral.

Credit risk exposure is managed in accordance with the Company's policies and with legal regulations.

7. Bank subsidiaries (continued)

Raiffeisen stambena štedionica d.d. (continued)

Liquidity risk and cash flow risk

Liquidity risk arises from regular treasury financing and managing positions. It includes cash flow risk arising from the inability to finance assets within appropriate timeframes and at appropriate interest rates, as well as the risk of inability to market assets at a reasonable price and within an appropriate timeframe.

The objective of liquidity risk management is to ensure the ability to meet obligations, to avoid the forced sale of assets (pricing capability) and to ensure the inflow of quality deposits by managing the reputational risk.

The Company continuously assesses liquidity risk by identifying and monitoring the changes in funding, which is required to comply with legislation and to achieve business and strategic objectives and maintains the liquidity asset portfolio (liquidity reserve) as part of its liquidity risk management strategy.

Market risks

Market risks include price risk, exchange rate risk and interest rate risk.

Price risk

Price risk is the risk that the value of a financial instrument will change due to a change in market prices, either resulting from factors specific to individual instrument or issuer or from any factors affecting all instruments traded on the market.

Part of the financial instruments is classified in financial assets at fair value through comprehensive income. This part of financial instruments is sensitive to market price changes, the effects of which are reflected through other comprehensive income.

Exchange rate risk

The Company is exposed to the exchange rate risk through transactions in foreign currencies.

The exposure to the exchange rate risk results from credit, deposit, investment and trading activities.

The Company manages the exchange rate risk by setting principles and limits for exposures in foreign currencies and by monitoring exposures against limits. The Company directs its business activities in an effort to minimize the gap between assets and liabilities denominated in or linked to foreign currency, maintaining daily operations within the daily potential loss limits across currencies, in keeping with the regulator requirements.

Interest rate risk in non-trading book

The interest rate risk in non-trading book is the risk of an adverse effect on profitability and/or capital due to changes in interest rates. The Company is exposed to the risk of interest rate change when there may be unforeseen changes in lending and deposit interest rates, which may have a negative impact on the Company's net interest income or profitability.

The Society manages this risk by complying with legal requirements and limits and by monitoring exposure in relation to limits.

Detailed information and overview of risk management is presented in Note 51 *Risk Management*.

7. Bank subsidiaries (continued)

Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.

The subject of the Company's business is the exclusive establishment of mandatory and voluntary pension funds and the management of these funds in accordance with the Law on Mandatory Pension Funds and the Law on Voluntary Pension Funds.

Business in 2021

In 2021, the Company achieved the goals defined in the business plan, which resulted in a net profit of HRK 56 million.
In the income structure, the largest item of income is revenues from the management of the Funds, which account for 99% of total revenues, of which 86% are revenues from the management of mandatory funds, and 25% are revenues from the management of voluntary funds.
The amount of the fee for the management of mandatory pension funds in 2021 was 0.284% (2020: 0.3%) per year from the total assets of the mandatory pension fund minus investment-based liabilities. In accordance with the Law on Voluntary Pension Funds, fees for the management of voluntary pension funds are prescribed by the Prospectus and the Statute of Funds.
Of the total expenditure achieved in 2021, 57% relates to expenditures from the management of the Funds, and 38% to operating expenses.
The Company's assets as at 31 December 2021 amounted to HRK 249 million. The largest asset item is financial assets relating to funds and investments in debt securities and a guarantee deposit.
The capital of the Company as at 31 December 2021 amounted to HRK 143 million.

Future development

The future development of the Company will continue to be based on an integrated approach of business, i.e. the management of mandatory and voluntary pension funds. The Company expects to strengthen the role of pension funds in the pension system, to continue the successful management of the Funds, that is, to invest the assets of the Funds with the aim of increasing the total return on investments solely in the interest of the members of the Funds, ensuring optimal growth of pension savings in relation to the risk taken.
The assets of the Funds will continue to be invested in accordance with the legal provisions, taking into account the principles of security, prudence and caution, reducing risks through the dispersal of investments, maintaining adequate liquidity, and prohibiting conflicts of interest while taking into account conditions in the capital markets.
The Company intends to consider integrating sustainability factors into the investment process while pre-ensuring the circumstances that make this possible, primarily the availability of data, and establishing an appropriate methodology for assessing, measuring and monitoring ESG characteristics in the industry in order to look at the impact of the ESG factor on pension funds.

Risk management

Credit risk

A credit risk is the risk of cessation of repayment of the liability or the potential liability of the other party with whom the Company made the transaction. At the date of reporting, the Company's credit risk arises from exposure to Raiffeisenbank Austria d.d., parent company, PBZ d.d. and the Republic of Croatia.

Interest rate risk

The Company's financial assets are generally interest-bearing, while most financial liabilities are non-interest-bearing. Assets and liabilities are due or have their interest rates changed in different periods or in different amounts. Accordingly, the Company's exposure to risk of the fair value of interest rates is limited due to fluctuations in prevailing market interest rates.
The Company's exposure to interest rate risk exists in deposits and fixed-rate debt securities, but a change in interest rates at the reporting date would not significantly affect the performance of the business.

7. Bank subsidiaries (continued)

Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d. (continued)

Exchange rate risk

Some of the Company's assets are denominated in euros, and as a result, the Company's revenues and assets are exposed to the impact of the exchange rate change.
The Company's exposure to exchange rate risk is related to its exposure to euro-denominated debt securities, funds in foreign exchange accounts and other receivables denominated in euro. The exposure of the Company's assets to exchange rate risk at the reporting date was not significant.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of a change in market prices, either under the influence of factors specific to an individual instrument, for the issuer or any factors affecting all instruments traded on the market. The exposure of the Company's assets to market risk at the reporting date was not significant.

Liquidity risk

Liquidity risk is a risk of difficulties that the Company may face when obtaining funds to meet commitments or the risk of not being able to transform certain forms of assets into funds. The exposure of the Company's assets to liquidity risk at the reporting date was not significant.

Detailed information and overview of risk management is presented in Note 51 *Risk Management*.

Raiffeisen mirovinsko osiguravajuće društvo d.d.

The Company has the license for the following core activities:

- payment of pensions under mandatory pension insurance in accordance with the Company's pension schemes based on the individual capitalized savings of a mandatory pension fund member
- payment of pensions under voluntary pension insurance in accordance with the Company's pension schemes based on individual capitalized savings of a member of the open-end voluntary pension fund
- payment of pensions under voluntary pension insurance in accordance with the Company's pension schemes based on individual capitalized savings of a member of the closed-end voluntary pension fund and
- payment of pensions based on direct one-off payments made by individuals to the Company.

Business in 2021

In 2021, the Company achieved the goals defined in the business plan, generating HRK 8.059 million in net profit.
In December 2021, the Company had 12,031 pension payment contracts, and total assets amounting to HRK 1,630.44 million at the end of 2021. The largest asset item is the financial assets related to investments in debt securities.

Future development

Upon exercising the pension entitlement, the savings of the regulated pension fund members are transferred to the pension insurance company selected by the fund member. The pension insurance company makes lifetime pension payments to mandatory pension fund members in accordance with the transferred funds, or pays lifetime or temporary pension benefit for voluntary pension fund members in accordance with the pension agreement. At 31 December 2021, there were two pension insurance companies in the Republic of Croatia that pay the second and third pillar pensions. In 2021, the Company generated revenues on the basis of concluded pension contracts from voluntary and compulsory pension insurance. Upon the arrival of a new pension insurance company, the Company has adjusted its business plan for the future period. The Company expects to continue its successful business operation, investing assets to cover technical reserves with the aim of preserving the sufficiency of technical reserve funds, ensuring maximum protection of pension beneficiaries and managing capital in order to preserve the Company's ability to continue as a going concern and to ensure capital adequacy and return on investment to the owners.
The Company's assets will continue to be invested in accordance with legal regulations, taking into account the principles of security, prudence and caution, risk mitigation through dispersal of investments, maintaining adequate liquidity levels, and prohibiting conflicts of interest while taking account of the conditions in the capital markets.

7. Bank subsidiaries (continued)

Raiffeisen mirovinsko osiguravajuće društvo d.d. (continued)

Risk management

The investment of the Company's assets is the responsibility of the Company's Management Board and the Investment and Analysis division. The Risk Management division supervises investments conducts analyses related to risk calculation and business performance.

The Company has implemented a comprehensive risk management framework governed by the Risk Management Regulations, covering any risks that the Management Board considers relevant to the Company.

The most significant types of financial risks to which the Company is exposed are market risks (currency risk, interest rate risk and price risk), credit risk (issuer risk and concentration risk), liquidity risk (asset and cash flow risk) and counterparty risk (settlement risk).

The Company invests its funds in compliance with the principles of alignment of the investments with liabilities in terms of interest yield, maturity, currency structure and liquidity obligations. Following a low-risk investment policy, the Company mainly invests in fixed income instruments such as government bonds and bank deposits, while other investments relate to investment fund holdings, real estate, shares listed on a regulated market and corporate bonds. The Company is exposed to currency risk arising from investment activities and settlement of pension liabilities since the technical reserves from the voluntary pension insurance are also indexed to foreign currency. The foreign currency which generates the currency risk arises is prevailingly the Euro.

Market risk

Market risk includes three types of risks:

- currency risk - the risk that the financial instrument value will change due to a change in the exchange rate
- interest rate risk - the risk that the value of financial instruments will change due to changes in market interest rates
- price risk – the risk that the value of financial instruments will change due to price changes in the market, regardless of whether those changes are caused by factors relating specifically to that instrument or its issuer, or by factors relating to all instruments traded on the market.

Interest rate risk

The Company's exposure to market risk of interest rate changes exists in all portfolios. The Company's business is subject to the interest rate risk to the extent that interest-bearing assets and liabilities on which interest is paid become due in different timeframes and their interest changes at different rates. The Company is also exposed to the risk of changes in future cash flows resulting from changes in interest rates in the market. However, this risk is limited since all of the Company's interest-bearing assets carry fixed interest rates at the reporting date. The technical reserve is discounted at a rate which is equal to or lower than the technical interest rate and the rate prescribed by the regulations. The prescribed rate reflects to a good extent the projected developments in interest rates over a longer period of time. As a result, changes in the value of investments that can be linked to the interest rate will not be mitigated by corresponding changes in the economic value of pension contract reserves in the opposite direction.

Exchange rate risk

The Company is exposed to exchange rate risk through transactions in foreign currencies.

The Company is exposed to exchange rate risk through investment activities and through the settlement of pension liabilities, since the technical reserves of voluntary pension insurance are also indexed to foreign currency. This risk relates exclusively to the euro (foreign currency index).

Credit risk

Credit risk is the risk that the issuer of a financial instrument which is held in the assets covering technical reserves or within the Company's assets will not be able to settle the liabilities (in terms of due amount and due date) as a result of inability to pay or other reasons. At the balance sheet date, the Company's credit risk mainly arises from exposure to the Republic of Croatia for debt securities to the largest extent, and to Raiffeisenbank Austria d.d., Zagreb parent company for deposits.

7. Bank subsidiaries (continued)

Raiffeisen mirovinsko osiguravajuće društvo d.d. (continued)

Liquidity risk

Liquidity risk results from the Company's financial activities and position management. This risk includes the risk of being unable to finance assets within appropriate time lines and interest rates and the risk of being unable to market assets at a reasonable price and within an appropriate time frame.

The Company holds a portfolio of liquid assets as part of its liquidity risk management strategy, thus ensuring ongoing operations and alignment with legal requirements.

Detailed information and overview of risk management is presented in Note 51 *Risk Management*.

Raiffeisen Invest d.o.o.

As of December 31, 2021, the Management Company managed twelve open-end investment funds with a public offering (hereinafter," "UCITS Funds"):

- Raiffeisen Flexi Euro short-term bond, open-end investment fund with a public offering (as of 19 September 2011; as of 20 July 2018, successor to the Raiffeisen euroCash fund, an open-end investment fund with a public offering and, as of 31 July 2018, successor to the Raiffeisen Flexi Euro Fund, an open-end investment fund with a public offering)
- Raiffeisen Harmonic, an open-end investment fund with a public offering (as of 31 December 2013, created by the merger of raiffeisen balanced and Raiffeisen Prestige funds and from 15 September 2014, the successor to the Raiffeisen Absolute Fund)
- Raiffeisen Classic, an open-end investment fund with a public offering (from 03 December 2014 and from 05 October 2017 annexed funds Raiffeisen Bonds and Raiffeisen protected principal)
- FWR Multi-Asset Strategy I, an open-end investment fund with a public offering (from 11 March 2015 and from 30 April 2018 annexed by the FWR Multi-Asset Strategy II fund)
- Raiffeisen Flexi Kuna short-term bond, open-end investment fund with public offering (as of 03 May 2017; as of 20 July 2018, successor to the Raiffeisen Flexi Cash Fund, an open-ended investment fund with a public offering; as of 31 July 2018, the successor to the Raiffeisen Flexi Kuna Fund, an open-ended investment fund with a public offering and, as of 15 March 2019, the annexed Raiffeisen Kuna fund short-term bond bond, open-end investment fund with a public offering)
- Raiffeisen Sustainable Equities, powering an open-end investment fund with a public offering (from 21 February 2018)
- Raiffeisen Fund Conservative, powering an open-end investment fund with a public offering (as of 21 February 2018)
- Raiffeisen USD 2026 Bond, open-end investment fund with a public offering (from 2 November 2021)
- Raiffeisen Flexi USD short-term bond, open-ended investment fund with public offering (as of 17 October 2019)
- Raiffeisen Eurerski Val 2025 Bond, open-ended investment fund with public offering (from 03 June 2019)
- Raiffeisen Sustainable Mix, powering an open-end investment fund with a public offering (from 07 October 2020; and from 22 December 2020 annexed to the Raiffeisen Dynamic Fund, an open-end investment fund with a public offering)
- Raiffeisen Wealth, open-end investment fund with a public offering (from 17 March 2021).

7. Bank subsidiaries (continued)

Raiffeisen Invest d.o.o. (continued)

Business in 2021

In 2021, the Company achieved the goals defined in the business plan, and achieved a net profit of HRK 1,938 thousand.
In the revenue structure, the biggest item is management revenues, which account for 93.15% of total revenues, while 4.39% are related to reimbursement of costs, and 0.18% to exit and entry fees. Management fees vary between funds and in accordance with the Open Investment Funds Act with a public offering (OG, No. 44/16, 126/19 and 110/21) (below "Law") are prescribed by the Prospectus and the Rules of the Funds.
Of the total expenditure achieved in 2021, 37.87% relates to expenditure on fund management and 56.77% to operating expenses and financial expenses.

The Company's assets as at 31 December 2021 amounted to HRK 13 million. The largest asset item is the money in the bank's giro account and accounts for 68.80% of the total assets.

Future development

In January 2022, Raiffeisen Capital Management (RCM) from the RBI Group took over 100% ownership of Raiffeisen Invest d.o.o. from Raiffeisenbank Austria d.d. Zagreb. The takeover was carried out within the framework of the process of optimizing asset management at the RBI group level.

Risk management

The Company may be exposed to certain financial risks that are present in the investment of the Company's assets in financial instruments (market risk, credit risk, liquidity risk), and operational risks and other risks (strategic risk, compliance risk, and reputational risk).
In accordance with the Company's internal policy, the Company's assets are made up of funds in the Company's account, and short-term deposits in approved credit institutions. Given the permitted investments of the Company's assets, the most significant financial risks are credit and currency risk.

Credit risk

A credit risk is the risk of cessation of repayment of the liability or the potential liability of the other party with whom the Company made the transaction. At the reporting date, the Company's credit risk arises mainly from its exposure to Raiffeisenbank Austria d.d., Zagreb, which owns the Company. The Company arranges transactions with credit institutions whose internal creditworthiness assessment is satisfactory.

Currency risk

The Company is allowed to invest in financial instruments and to carry out transactions denominated in currencies other than its functional currency. The Company regularly monitors and adjusts currency exposures in accordance with internal restrictions.

Liquidity risk

Liquidity risk arises from the ordinary operations of the Company, and it is monitored on a daily basis. The Company continuously measures, manages and monitors risk exposure in accordance with legal provisions and internal decisions. Those decisions prescribe a liquidity risk management plan on an annual basis.

7. Bank subsidiaries (continued)

Raiffeisen Invest d.o.o. (continued)

Operational risk

The Company's operational risk relates in large part to the management of UCITS funds and legal obligations arising from the Company's core business.
Operational risk is a risk of loss to the Company due to inappropriate or failed internal processes, procedures and omissions relating to human resources or systems within the management company or due to external influences or events, including legal and documentation risk and risk arising from trading, settlement and valuation procedures carried out on behalf of UCITS Funds under the Company's management.

The Company seeks to eliminate or reduce the occurrence and impact of these risks by persevering with independent organizational units and clear delimitation of responsibilities, adopting business policies and procedures, and establishing the control systems necessary in the conduct of regular business activities (e.g. four-eyes principle). The Company strives to automate business processes with built-in control mechanisms. In order to effectively manage operational risks, techniques are used that include identifying and assessing risks, collecting data on operational risk events, monitoring key operational risk indicators, conducting scenario analyses, and implementing measures to master operational risk. By continuously monitoring business processes, for the purpose of early identification and correction of deficiencies in policies, procedures and business processes, the Company strives to significantly reduce the potential frequency and/or intensity of the impact of operational risk events, and any impact on the business.

Strategic risk

Strategic risk is a risk that results from strategic business decisions such as, for example, the non-adaptation of business decisions to changes in the environment. Strategic risk generally arises in relation to other risks, but can also arise as a standalone risk, and includes competition risks, risks of changes in industry and risks of changing demand.

Compliance risk

Compliance risk is the risk of imposing possible measures and penalties and the risk of significant financial loss or loss of reputation, which the Company may suffer due to non-compliance with regulations. The risk of conformity may arise due to non-compliance with legal regulations or in a situation where there is a conflict of interest. Conflicts of interest arise when the relevant persons in the Company are not neutral and objective in relation to the asset management of the funds, that is, when, by carrying out their activity and having a specific position in carrying out asset management activities, they have professional or personal interests that hinder the effective performance of the activities and jeopardize their objectivity, oppose the interests of the investors of the funds and thus can cause harm to the funds and their investors. In order to manage compliance risk, the Company has singled out an independent conformity function, which is appropriate to the Company's Management Board and which is, among other things, responsible for assessing and monitoring the Company's compliance risks.

Reputational risk

Reputational risk arises from a possible negative impact on the Company's reputation as a result of negative public perception (e.g., by investors, business partners, supervisors).

Detailed information and overview of risk management is presented in Note 51 *Risk Management*.

7. Bank subsidiaries (continued)

Raiffeisen Leasing d.o.o.

The core business is the performance of financial and operating leasing activities ("leasing").

Business in 2021

2021 was profitable year for the Company, with achieved profit after tax in amount of HRK 20.51 million and total assets in balance sheet of HRK 1,116.82 million.

Interest income was HRK million 34.3 (2020: HRK 37.1 million), while interest expense was HRK 7.5 million (2020: HRK 10.6 million). Interest income in 2021 has decreased by 7.66 % compared to 2020 due to decrease in the volume of new lease contracts which is related to operating in pandemic conditions. Interest expense has also decreased by 29.5 % due to more favourable financing terms. Net fee and commission expense were HRK 0.6 million (2020: HRK 1.6 million).

The Company's profit after tax amounted to HRK 20.51 million (2020: loss after tax HRK 9.2 million). In relation to capital and reserves, net profit amounted to 10.8% (2020: loss in relation to capital and reserves 5.4%). The Company's results depends on business conditions in the financial market and changes in the real sector. Growth of national economy has reduced the risk of placements, and high liquidity improves the collection of receivables from customers in the sensitive phase of expiration of moratorium period. The moratorium on the repayment of leasing contracts has been used for the longest time by clients with a strong seasonal impact on revenue generation, such as tourist services. The expiration of the moratorium coincided with the realization of increased revenues in the summer season, which eased the financial burden on debtors from debt repayment.

Reduced risk of leasing contracts enabled the release of part of the provisions for losses, which the Company formed for placements in the previous period. The acceleration of economic growth in conditions of excess liquidity further narrowed interest margins.

Total assets of the Company as of 31.12.2021 amounted to HRK 1.1 billion (2020: HRK 1.2 billion). The finance lease portfolio, net of impairment, amounted to HRK 858 million (2020: HRK 923 million), while the net book value of fixed assets in operating lease amounted to HRK 129 million (2020: HRK 139 million). The decrease in the portfolio was caused by the reduced volume of new lease business, which is a direct consequence of the disruption of supply chains and business in general in pandemic conditions.

The Company's customers are legal and physical entities, mostly domestic residents.

In financing structure of business, besides own equity in amount of HRK 190 million (2020: HRK 169 million), the Company also uses external sources of financing. Loans from Raiffeisen Group members take the largest part in external financing of business. As of 31 December 2021, these loans amounted to HRK 554 million, while total amount of loans from domestic and development banks amounted to HRK 317 million.

The amount of own funds of the Company is sufficient regarding its risk profile and is also in compliance with minimum regulatory capital requirements.

Future development

The general trend of digitalization and automation in the financial services sector will reduce operational risks, and the Company plans to adjust its operations in line with changes in financial services markets. The development of the supply of financial services was encouraged by the modernization of communication channels and service sales channels. These processes not only increase the number and functionality of sales channels, but also reduce the need for staff for routine sales and administrative jobs. Automation will, on one side, reduce errors in data processing and, on the other side reduce labor costs.

7. Bank subsidiaries (continued)

Raiffeisen Leasing d.o.o. (continued)

Future development (continued)

In addition to activities to increase operating income, business development measures are implemented to improve productivity and safety standards, introduce technological improvements and develop business process management. Available professional, organizational and technological resources are directed to increasing the quality of service and achieving lower unit costs per transaction. Investments in technology and business process development enable innovative supply and development of financial services tailored to customer demand.

The Company's development priority is to adapt to changes in the regulation of financial institutions. It is implemented through the improvement of the functionality of the sales and business support system. The following are the requirements for the development of business processes and support related to the adjustment of supply to changes in market conditions. Improvements are also made to harmonize business processes within the proprietary international financial group (RBI). In its future operations, the Company expects a moderate increase in demand for financing through leasing, with the entry of new competitors in the offer of services to clients. Therefore, development activities are aimed at increasing the quality and innovation in the offer of services, where we expect the greatest competition in the coming period.

The strategic goal in business development is the introduction of innovative sales channels, both standard and new types of services sold on digital platforms. In this way, the Company adapts to customer requirements, but with constant care to maintain a high level of service quality and security of customer transactions.

Risk management

Given that the Company is exposed to various risks when performing business activities on a regular basis, the material risks to which the Company is or may be exposed are monitored, while taking into account the impact of macroeconomic trends and external risk factors on the company's business.

The Company is exposed to a significant number of risks in business operations, the most significant ones being are credit risk, market risk and liquidity risk

The Company implements adequate policies and procedures for managing specific risks, and risk management and mitigation methods are specifically prescribed and documented by regulations and procedures.

The Company defines the following types of significant risks:

Market risk

It includes currency risk, interest rate risk and the asset and liability mismatch risk or risk of deviations from defined limits.

Credit risk

The Company is exposed to credit risk through activities involving the provision of financial and operational leasing or receivables from the lessee.

Credit risk may arise in connection with any form of placing funds, and it implies the risk that the debtor will not be able to perform payment obligations (in the agreed amount and at agreed maturity) due to the inability to pay (default) or other reasons.

When approving a leasing contract, the client's creditworthiness is determined and analysed for the purpose of managing credit risk, and the Company seeks to deal with clients of good creditworthiness and always obtains collateral from them. Special consideration is also given to the quality and the prospect of sale of the leasing item, which remains the property of the Company until the leasing agreement is fully discharged.

7. Bank subsidiaries (continued)

Raiffeisen Leasing d.o.o. (continued)

Operational risk

Operational risk is defined as the risk of financial losses resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Detailed information and overview of risk management is presented in Note 51 *Risk Management.*

Raiffeisen consulting d.o.o.

The Company provides consulting services related to the following business activities: real estate appraisal, oversight of construction works supervision, management and rental of real estate, real estate brokerage, energy certification and investments in construction.

Business in 2021

In 2021, the Company achieved the goals defined in the business plan, generating a net profit of HRK 3,376 thousand.
In the income structure, the largest item of income is revenues from the real estate appraisal, management and maintenance, which make 58% of total income, and operating lease revenues, which make for 34% of total income.

In 2021, the Company recorded a decline in the income segment from real estate appraisals and construction supervision, being lower by 17% compared to 2020 due to events caused by the Covid-19 pandemic and decline in economic activity.

Also, the Company generated a net income of HRK 0.5 million in the real estate brokerage segment.

In 2021, the Company reduced exposure to long-term loans by 5.9% or HRK 7.2 million, while short-term loans exposure increased by HRK 1.8 million or 11.6%.

The Company's assets as at 31 December 2021 amounted to HRK 229,047 thousand. The largest asset item is investment property owned by the Company that is related to long-term lease agreements. The capital of the Company as at 31 December 2021 amounted to HRK 105,347 thousand.

Future development

The future development of the Company will continue to be based on a structured approach with a focus on providing the highest quality of service to clients in the real estate appraisal segment and intensifying activities in the real estate brokerage segment.

The Company expects a stable situation, maintaining the business volume in the real estate appraisal segment, and developing additional services to clients related to this business segment.
Also, in accordance with the business plan, the Company expects a continued trend of reducing liabilities for funding, maintaining stability in business development and a sustainable level of profitability.

The Company's plans are related to additional development in the real estate segment, expansion of the client base and improvement and wider range of services offered to clients especially in the commercial real estate development and management and with particular emphasis on improving the energy efficiency of real estate under management and the introduction of new technologies and use of renewable energy sources.

7. Bank subsidiaries (continued)

Raiffeisen consulting d.o.o. (continued)

Risk management

The most significant types of financial risks to which the Company is exposed are credit risk, liquidity risk and market risk. Market risk includes the risk of exchange rate change, the risk of interest rate change and price risk.

Credit risk

A credit risk is the risk that a counterparty to a transaction made with the Company will stop performing its liabilities or contingent liabilities. The Company's exposure to credit risk at the reporting date results from deposits with banks, guarantee deposits, loans extended and financial instruments at fair value through profit or loss account. The risk of possible default existing with individual parties in transactions with financial instruments is continuously monitored. When monitoring credit risk, the Company takes into account the instruments traded which have a positive fair value and the variability of their fair value.

Interest rate risk

The Company's activities are affected by the risk of interest rate changes to the extent that interest bearing assets and liabilities become due or their interest rates change at different times or in different amounts. In the case of variable interest rates, the Company's assets and liabilities are also subject to basis risk, which represents a difference in determining prices of various variable interest rate indices.
At 31.12.2021 the Company is not exposed to the interest risk arising from borrowings, as they have a fixed interest rate.

Exchange rate risk

The Company is allowed to invest in financial instruments and to execute transactions denominated in currencies other than its functional currency. Accordingly, the Company is exposed to a risk that the relation between its functional currency and other foreign currencies may change, which will have an inverse impact on the value of the portion of the Company's assets and liabilities denominated in foreign currency. The Company is primarily exposed to risk of change of the exchange rate of the euro.
At the reporting date, the Company is not exposed to the exchange rate risk arising from the loans taken out by the bank, since those previously taken loans denominated in EUR are refinanced by kuna loans.

Liquidity risk

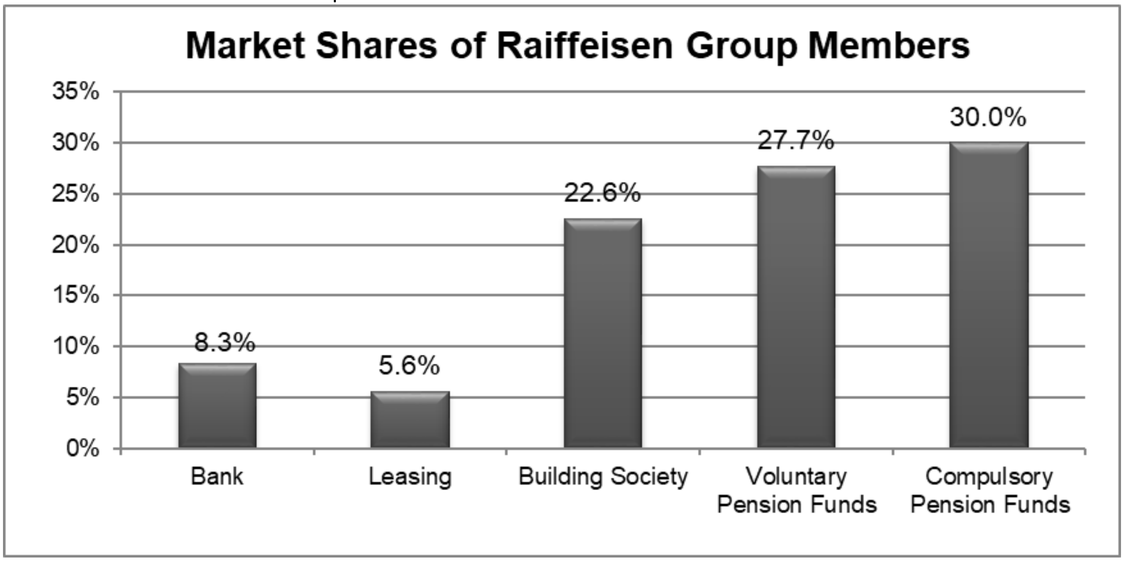
Liquidity risk is the risk that the Company may face difficulties when obtaining funding to meet commitments and the risk of not being able to transform certain forms of assets into cash.

Detailed information and overview of risk management is presented in Note 51 *Risk Management.*

7. Bank subsidiaries (continued)

The Group's total assets at 31 December 2021 amounted to HRK 44,532 million (2020: HRK 40,127 million), having increased by 11 percent (2020: 9 percent) year on year. In the asset structure, loans to customers increased by HRK 1,410 million (2020: HRK 371 million), while liquid assets and investments in financial assets other than loans have increased by additional HRK 2,936 million (2020: decreased by HRK 3,026 million). The table below does not show the Pension Insurance Company d.d. (PIC) because the PIC has an extremely high market share and is not a relevant indicator for comparison. There is another company operating on the pension insurance market that is a competitor to the PIC.

Market share of Raiffeisen Group members



Sources: CNB; CFSSA; Raiffeisen Research

At 31 December 2021, assets under management in the three mandatory pension funds amounted to HRK 39,942 million (2020: HRK 36,211 million), with an additional HRK 2,162 million (2020: HRK 1,849 million) worth of assets under management in one open-end and four closed-end voluntary pension funds. In the structure of assets managed by the pension company, 95 percent (2020: 95 percent) are assets of mandatory pension funds. The number of members in Raiffeisen pension funds at the end of the year was as follows: 612 thousand members (2020: 603 thousand) in mandatory pension funds and 97 thousand members (2020: 91 thousand) in voluntary pension funds. The 10 percent annual growth (2020: 5 percent) in the amount of assets managed by the pension company is based on the contributions made by fund members and the realized fund returns.

7. Bank subsidiaries (continued)

Building societies are credit institutions specializing in the provision of special purpose savings and housing loans. The products include long-term savings with government incentive and fixed-rate housing loans. Client interest in housing savings and loans depends on alternative market offer and payment of government incentives for housing savings. Government incentives are calculated on the basis of realized market interest rates. Due to the fall in interest rates, the amount of government incentives decreases as well. The government incentive was capped at 0.3 percent in 2021 and 0.4 percent in 2022. In the housing loans market, there has been an increased interest in fixed-rate home loans offered by banks with the government subsidy. The Bank initiated the procedure for the merger of this subsidiary into the Bank.

Raiffeisen group financial highlights for the period from 2017 to 2021

	Group 2021 HRK millions	Group 2020 HRK millions	Group 2019 HRK millions	Group 2018 HRK millions	Group 2017 HRK millions
From Balance sheet at 31 December					
Total assets	44,532	40,127	36,844	35,165	34,178
Shareholders’ equity	5,463	5,006	4,941	4,506	4,685
Customer accounts	33,541	29,139	26,561	26,233	23,780
Loans to customers	21,648	20,238	19,867	17,463	17,745
From Income statement for the year ended 31 December					
Operating income	2,084	2,202	2,034	1,804	1,874
Operating expenses and depreciation	1,469	1,729	1,445	1,233	1,212
Profit before tax	608	181	434	328	290
Net profit for the year	503	127	421	283	188

In 2021, the Group's total liabilities increased by HRK 3,948 million (2020: HRK 3,218 million). The share of customer deposits in the Group's total liabilities is 86 percent (2020: 83 percent) and the secondary funding sources account for 5 percent (2020: 10 percent) of total liabilities. In addition to the borrowings in the Bank, a major part of the secondary sources of funding relates to borrowings of Raiffeisen Leasing and a smaller portion to Raiffeisen Consulting. On 31 December 2021, borrowings amounted to HRK 1,085 million (2020: 2,834 million) and bank deposits add HRK 286 million (2020: HRK 267 million). Total customer deposits amounted to HRK 33,541 million (2020: 29,139 million). The share of private individual deposits in total liabilities was 47 percent (2020: 47 percent). On 31 December 2021, the Group's equity amounted to HRK 5,463 million (2020: 5,006 million), with capital adequacy ratio of 22.77 percent (2020: 23.62 percent).

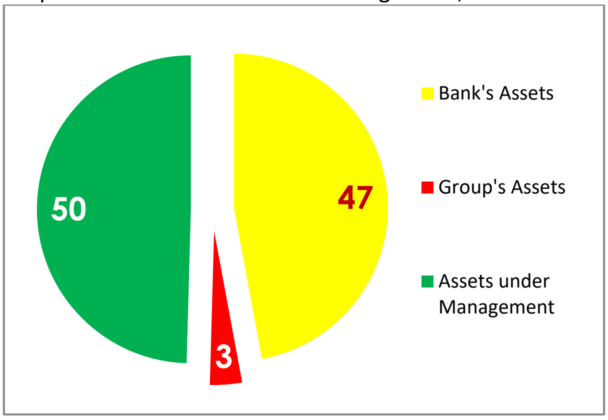
The Group's profit after taxation in 2021 amounts to HRK 503 million (2020: HRK 127 million). All companies in the local Group achieved a positive result; in addition to the bank, there was also a pension fund management company, pension insurance, consulting, building society and leasing.

7. Bank subsidiaries (continued)

The Group's net interest income amounted to HRK 830 million (2020: HRK 871 million), up by 5 percent (2020: 3 percent) on the year before. At group level, the negative impact on net interest income was caused by a narrowing of the interest margin due to historically low interest rates and a growing surplus of liquidity in the system. Net fee and commission income amounted to HRK 460 million (2020: HRK 394 million), up by 17 percent compared to the year before. The increase was generated in the Bank and decrease in the pension funds management company. Fee income is the primary income of the Group member which manage the assets of the pension funds. The level of the management fee for mandatory pension funds is determined by the regulator.

Other non-interest income amounted to HRK 794 million (2020: HRK 937 million), down by 15 percent compared to previous period. Income from trading and valuation of financial assets generated a gain of HRK 162 million (2020: HRK 114 million). Other operating income gained HRK 632 million (2020: 824 million), and the largest portion in the amount of HRK 534 million relates to Raiffeisen mirovinsko osiguravajuće društvo d.d. Other income includes operating income from operating leases of HRK 28 million.

Structure of the operation of the Group
Group - assets and assets under management, in %



The total income of local Group was HRK 2,084 million (2020: HRK 2,202 million), having decreased by HRK 118 million (2020: increased by HRK 168 million) on the year before. The Group's operating expenses amounted to HRK 1,469 million (2020: 1,729 million), of which HRK 326 million (2020: HRK 503 million) relate to technical provisions for pension insurance, and an additional HRK 201 million (2020: HRK 246 million) to administrative expenses for the increase in reserves. Operating expenses decreased by HRK 260 million (2020: increased by HRK 284 million) on the year before. Operating expenses account for 71 percent (2020: 78 percent) of the Group's total income.

The Group had HRK 7 million (2020: HRK 292 million) of impairment losses, down by HRK 285 million (2020: increased by HRK 137 million) on an annual basis. The contribution of other members of the local Group to the losses was insignificant. The Group recorded a positive operating result of HRK 503 million (2020: HRK 127 million). On annual basis the net result increased by HRK 376 million.

8. Financial instruments and related risks

The Bank and the local Group invest in financial instruments, thus generating risk exposure. Risk management is within the scope of competence of the Bank's Management Board and is operationally implemented by organizational units for risk management and risk control. As at 31 December 2021, the Bank's assets were invested in various financial instruments, with loans to customers and debt securities accounting for a significant portion.
Major types of financial risks to which the Bank and the local Group are exposed include credit risk, liquidity risk, market risk and operational risks. Market risk includes exchange rate risk, interest rate risk and equity price risk.

At the Group level, a comprehensive risk management system is in place. It includes introduction and implementation of policies and procedures, setting limits for acceptable level of risk for the Group. Limits are defined by risk type in order to maintain the risk exposure within the risk appetite defined by the overall strategy, which is above the capital adequacy requirement. For the purpose of effective operational risk management, appropriate operational risk management methods and tools are applied at the Group level. Details about risk management are shown in Note 51 *Risk management*.

Credit risk

Credit risk is the risk that the counterparty to a transaction with the Group will default on its payment obligation or contingent liability commitment.

At the reporting date, the Bank's total credit risk exposure to all customer segments was HRK 38,480 million (2020: HRK 34,186 million) in assets and HRK 9,109 million (2020: HRK 8,217 million) in off-balance sheet items. At the Group level, credit risk exposure amounted to HRK 41,319 million (2020: HRK 37,061 million) in assets and HRK 9,458 million (2020: HRK 8,490 million) in off-balance sheet items.

At 31 December 2021, the Bank's total non-performing loans amounted to HRK 1,158 million (2020: HRK 1,210 million) out of a total exposure of HRK 48,668 million (2020: HRK 43,702 million). Loan loss provisions were formed in the amount of HRK 703 million (2020: HRK 791 million) covering 61 percent (2020: 65 percent) of non-performing loans. At the Group level, non-performing loans totalled HRK 1,223 million (2020: HRK 1,310 million) out of a total exposure of HRK 51,893 million (2020: 46,895 million) of total placements. Loan loss provisions were formed in the amount of HRK 734 million (2020: HRK 826 million), covering 60 percent (2020: 63 percent) of non-performing loans.

8. Financial instruments and related risks (continued)

Liquidity risk

Maturity transformation is a function that banks generally perform in the financial market. A consequence of the maturity transformation is a continuous reporting gap between inflows and outflows in a specific time period (liquidity gap). Liquidity gaps lead to exposure to liquidity risks. They arise in the form of a risk that the Bank will not be able to finance (refinance) its positions on acceptable terms at appropriate maturities and a risk that the Bank will not be able to effectively monetize its assets within an appropriate timeframe.

The Bank and the local Group have aligned their business activities with legal provisions governing liquidity risk and with group and internal regulations on liquidity reserve. At 31 December 2021, the liquidity risk exposure of the Bank and Group was in line with the strategy and within the defined limits.

Market risk

Market risk is the risk of a negative impact of changes in market parameters, such as interest rates or foreign exchange rates, on the Group's income or the valuation of its positions in financial instruments. Assessment of market risk exposure is based on changes in foreign exchange rates, interest rates, credit spreads, equity and commodity prices, and other market parameters.

Interest rate risk

The financial assets of the Bank and the local Group are generally interest bearing, as are most financial liabilities. Assets and liabilities mature, and the interest rates are reset, in different intervals or in different patterns. To a certain extent profit of the Bank and Group is sensitive to interest rate movements. Profit is also affected by the currency structure of assets, liabilities and capital and reserves. The Bank and the Group hold a significant share of interest bearing assets and liabilities denominated in foreign currencies. The assessment of interest rate risk exposure is measured from the perspective of earnings and economic value change perspective.

Exchange rate risk

Part of the assets of the Bank and the Group are denominated in foreign currencies, prevailingly in euros. Exposure to exchange rate risk is the risk of losses incurred in foreign currency open positions. In order to hedge against currency risk, the Bank and the Group use derivative financial instruments.
Exposure to exchange rate risk arises from transactions in loans denominated in foreign currencies, deposits denominated in foreign currencies, and from investment and market activities. This exposure is monitored on a daily basis, in accordance with internally determined limits set for individual currencies and in the total amount of the maximum open foreign currency position. The exposure of the Bank and Group to exchange rate risk at the reporting date is in line with the strategy and within the defined limits.

Equities price risk

Equity price risk is the risk that arises from equity price volatility, and it affects fair value of equity investments and other instruments the value of which derives from equity investments. Primary exposure to price risk arises from equity securities that are measured at fair value through profit or loss. The exposure of the Bank and Group to equity price risk at the reporting date is in line with the strategy and within defined limits.

9. Social responsibility

Sponsorships and donations

In accordance with its policy of sustainability and promoting socially responsible business, in 2021 the bank primarily turned to sponsoring projects of great significance to the community in which we live and work, which have a positive impact on the environment and support entrepreneurship of women and youth.

Thus, the bank sponsored:

- *the Boranka project* – funds are intended for organizing the *Boranka* voluntary reforestation campaign of fire affected areas in Dalmatia. The project aims at raising awareness of the importance of forest protection, fire prevention and consequences of global warming
- *Compensating by planting* - project aimed at achieving reduction of CO2 emissions through tree planting. The Bank has calculated its emissions of CO2 and commited to cancel the emission by planting trees within a certain period of time
- *the 1,000 Sunčanih krovova project* organized by the *Zelena energetska zadruga* - funds are intended for support in creating and promoting the digital platform *Na sunčanoj strani*, which will serve as the central communication platform for all information and offers related to construction of sun power plants on the rooftops of households in Croatia. RBA is a partner in the project that invests in renewable energy sources and contributes to transformation and regeneration of cities. Within the scope of the same project, the bank sponsored also an award contest *Na sunčanoj strani*
- *donations to children's homes* (Maestral Children's Home, Ruža Petrović, Pula Children's Home)
- *donation to Palčići* – Financial assets intended for procurement of advanced intensive care incubators which will be located in the Clinical Hospital Petrova
- *Women in Adria* – Financial assets intended for supporting realization of the *Women in Adria* program in the year 2021
- *AmCham Talents program* – Financial assets intended for organizing the AmCham Talents program 2021
- *Infobip Shift 2021* - Funding earmarked for the Infobip Shift 2021 conference, which included educational and inspirational discussions and Q&A sessions held by leading experts from the IT industry
- *Book ,,Najveći dar,,* - sponsoring the publishing of the book which introduces readers ina n amusing way to the challenges of dyslexia and raises awareness and educates the public about what it i slike to be different
- *Greencajt festival* – sponsorship of the first festival fully dedicated to sustainable development and topics related to a sustainable lifestyle
- *Rokotok* – sponsorship of the project launched by a famous Croatian journalist in memory of his deceased son; he swimms from one Croatian island to the other and educates children on environmental issues
- *Green HUB* – Sljeme mountain clean-up campaign – we sponsored and participated with our colleagues volunteering in the campaign to clean Sljeme from large quantities of accumulated garbage.

9. Social responsibility (continued)

Welfare of employees

After the great earthquake in Petrinja the bank provided financial aid for employees whose property was affected by the earthquake. All employees whose property was destroyed or significantly damaged in the earthquake had the right to one-off aid in accordance with the damage categorization performed for their respective real estate. In this way, employees received financial aid much earlier than they would have by applying to the city or the state.
In addition, through donations and in cooperation with part of the RBI Group, the Bank supported the complete renovation of “Petrinjčica” kindergarten in Petrinja. It was also the first public-purpose facility to be rebuilt after the earthquake.

For all employees, the bank provides regular physical exams and additional health insurance, whereby it additionally invests in the health and welfare of its staff.

Considering a very difficult and challenging year, multi-purpose education and workshops were organized for the senior management specifically highlighting regulation of stress, burnout and prevention of such states. Internal blogs focusing on the mentioned issues (organization of remote work, awareness) are available to all employees.

10. Non-financial information

The Bank implemented the exemption allowed under the Accounting Act Article 21a paragraph 7, and does not declare a separate non-financial statement.
Non-financial information regulated under the EU Directive 2014/95 that include the Bank and members of the local group were published by RBI on its web site at the link: (https://www.rbinternational.com).

Responsibilities of the Management Board for the preparation of the Annual report

The Management Board of the Bank is required to prepare unconsolidated and consolidated financial statements ("financial statements") for each financial year which give a true and fair view of the financial position of the Bank and its related parties (together "Group"), results of their operations and cash flows, in accordance with statutory accounting requirements for banks in the Republic of Croatia, and is responsible for maintaining proper accounting records to enable the preparation of such financial statements at any time. Management Board of the Bank has a general responsibility for taking such steps as are reasonably available to it to safeguard the assets of the Bank and the Group and to prevent and detect fraud and other irregularities.

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

The Management Board of the Bank is responsible for the submission of the Annual Report for the Bank and the Group to the Supervisory Board, which includes annual financial statements, for acceptance. If the Supervisory Board approves the annual financial statements, they are deemed confirmed by both, the Management Board and the Supervisory Board of the Bank.

The Management Board of the Bank is responsible for the preparation and content of the Management Report and other information including the Letter from the President of the Management Board, the Report of the Supervisory Board and the Macroeconomic environment, in accordance with the provisions of the Accounting Act (Official Gazette 78/15, 134/15, 120/16, 116/18, 42/20, 47/20).

The Management Board is also responsible for preparation and content of the Reports and related adjustments prepared in accordance with the Decision on the Structure and Content of the Annual Financial Statements of credit institutions (OG 42/18; OG 122/20 and OG 119/2021).

Financial statements presented on following pages, as well as non-consolidated and consolidated schedules with the related adjustments prepared in accordance with the Decision on the structure and content of the annual financial statements of credit institutions (OG 42/18; OG 122/20 and OG 119/21) were approved by the Management Board on March 31, 2022 and submitted to the Supervisory Board for approval.

To confirm this, financial statements have been signed by authorized persons of the Bank, as follows below.

Signed on behalf of Raiffeisenbank Austria d.d.

Liana Keserić
President of the Management Board

Georg Feldscher
Member of the Management Board

Višnja Božinović
Member of the Management Board

Ante Odak
Member of the Management Board

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Raiffeisenbank Austria d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the company Raiffeisenbank Austria d.d. ("the Bank") and its subsidiaries (together "the Group"), which comprise the statement of financial position of the Bank and the Group as at 31 December 2021, and the statement of comprehensive income of the Bank and the Group, statement of changes in equity of the Bank and the Group and statement of cash flows of the Bank and the Group for the year then ended and notes to the financial statements, including a summary of significant accounting policies ("financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank and the Group as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with statutory accounting requirements for banks in the Republic of Croatia.

Basis for Opinion

We conducted our audit in accordance with the Audit Act and 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 Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including *International Independence Standards*) (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matter are matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. Those matters were 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 those matters.

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

Loss allowance for expected credit losses on loans and advances to customers

For the accounting framework refer to note 2 *"Basis for preparation",* for accounting policies see note 3 *„Significant accounting polices"*, and for accounting estimates and judgements in applying accounting policies see note 4 *"Significant accounting estimates and judgements"*. For the additional information regarding identified key audit matter, refer to note 11 *"Loans and advances to customers"* and note 36 *"Impairment losses"* to the accompanied financial statements.

Key audit matter:	How the matter was addressed in our audit:
Credit risk represents one of the most important types of financial risks to which the Bank and the Group are exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in business activities of the Bank and the Group. As part of the credit risk management process, determining appropriate methods and models for measuring and managing loss allowance for expected credit losses represents one of the key considerations for the Management. In determining both the timing and the amount of loss allowances for expected credit losses on loans and advances to customers, the Management of the Bank exercises significant judgement in relation to the following areas: • Use of historical data in the process of determining risk parameters; • Estimation of the credit risk related to the credit exposure; • Assessment of stage allocation; • Assessment of the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether a significant increase in credit risk has occurred, leading to changes in stage allocation, and the required measurement of lifetime expected credit losses; • Assessment of forward-looking information, including the impact of the COVID-19 pandemic; • Expected future cash flows from operations; • Valuation of collateral and assessment of realization period.	In order to address the risks associated with loss allowances for expected credit losses on loans and advances to customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed the following audit procedures with respect to the area of loans and advances to customers: • Reviewing the Bank`s and the Group's methodology for recognizing loss allowances for expected credit losses and comparing the reviewed methodology against the requirements of International Financial Reporting Standards 9: *Financial instruments* within the statutory reporting framework; • Obtaining understanding of the control environment and internal controls implemented by the Management within the process of measuring loss allowance for expected credit losses, including utilized applications and information technology tools; • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring loss allowance for expected credit losses; • Testing identified relevant controls for operating effectiveness; • Assessing quality of historical data used in determination of risk parameters and evaluating the appropriateness of IT elements and data processing; • Disaggregating loans and advances to customers account balance based on stage allocation and relevant segments for the purposes of sample selection - for Stage 3, individually assessed loans and receivables, the criteria for selection included, but was not limited to, client's credit risk assessment, industry risk, days past due, etc.;

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Maters (continued)

Key audit matter:	How the matter was addressed in our audit:
Since determination of appropriate loss allowances for expected credit losses on loans and receivables requires use of complex models (generally dependent on IT elements) and a significant judgement from the Management of the Bank, the process of measuring expected credit losses may be exposed to management bias. Calculation of loss allowances for expected credit losses on loans and advances to customers, recognized in accordance with the statutory reporting framework for banks in the Republic of Croatia might have significant effect on financial statements of the Bank and the Group. As a result, we have decided to include loss allowances for expected credit losses on loans and advances to customers as a key audit matter during our audit of the financial statements for the year ended 31 December 2021.	• Performing substantive tests over recognition and measurement of loss allowance for expected credit losses on sample of loans and receivables allocated to Stage 1, Stage 2 and those in Stage 3 of credit risk that are collectively assessed, focusing on: i. Models applied in stage allocation and transitions between stages; ii. Assumptions used by the Management of the Bank in the expected credit loss measurement models; iii. Criteria used for determination of significant increase in credit risk, including the impact of COVID-19; iv. Assumptions applied to calculate probability of default; v. Methods applied to calculate loss given default; vi. Methods applied to incorporate forward-looking information, including the impact of COVID-19; vii. Recalculation of expected credit losses on a selected sample. • Performing substantive tests over recognition and measurement of loss allowance for expected credit losses on sample of individually assessed non-performing loans and receivables allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following the latest credit reports and available information; ii. Assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations, considering the borrower's financial status and performance in the current economic environment affected by COVID-19; iii. Inspection and assessment of expected future cash flows from collateral and estimated realization period.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Maters (continued)

<table>
<tr><td colspan="2">Provisions for court cases
For the accounting framework refer to note 3 „Significant accounting polices”, and for accounting estimates and judgements in applying accounting policies see note 4 “Significant accounting estimates and judgements” section „Provision for court cases”. For the additional information regarding identified key audit matter, refer to note 26 “Provisions for liabilities and charges” to the accompanied financial statements.</td></tr>
<tr><td>Key audit matter:</td><td>How the matter was addressed in our audit:</td></tr>
<tr><td>Bank and the Group are often exposed to various litigations or court cases, results of which may have adverse effects on their financial performance.

In order to adequately reflect potential adverse effects, the Bank and the Group assesses the requirement for provisions in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets (IAS 37).

The provision is recognized if, and only if a present, legal or constructive, obligation exist as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and if a reliable estimate of the obligation is determined.

Due to the complexity involved in these litigation matters, Management’s judgment regarding recognition and measurement of provisions for legal proceedings is inherently uncertain and might change over time when the outcomes of the legal cases are determined and concluded.

Therefore, the Management's judgement over the existence of present obligation, the probability of a payment being required to settle the court cases’ obligation, and a reliable estimate of such amount requires the Management to consider risks and uncertainties that inevitably surround legal proceedings in order to ensure appropriate recording and disclosures in the financial statements.

Following legal developments in the Republic of Croatia and significant effect that provision for legal proceedings could have on financial statements of the Group. As a result, we have decided to include provisions for litigations as a key audit matter during our audit of the financial statements for the year ended 31 December 2021.</td><td>In order to address the risks associated with provisions for legal cases, identified as key audit matter, we designed audit procedures that allowed us to obtain sufficient appropriate audit evidence for our conclusion.

We performed the following audit procedures with respect to the area of legal cases:

• Inspection of design adequacy and implementation of internal controls of the Bank and the Group established in the process of calculating the provision for legal claims and testing of operating effectiveness.
• Discussion with the Management to obtain understanding of the assumptions considered when determining the requirement for recognition and measurement of provisions for litigations;
• Obtaining and observing opinions and representations of external legal advisors in order to assess whether they sufficiently support the Management’s judgement over the assumptions considered and the amounts of provision recognized;
• Reconciling opinions and representations of external legal advisors on initiated legal cases to the accounting records;
• Obtaining and inspecting the calculation of the provisions for litigations and assessing whether the assumptions underpinning the valuation of these provisions are based on appropriate and available internal and external information, thus representing the Management’s best estimate of the provision amount;
• Evaluating the appropriateness of related disclosures in accordance with IAS 37.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Maters (continued)

Revenue from Management fee

For the accounting framework refer to note 3 *„Significant accounting polices"*, section *„Fee and commission income and expenses"*. For the additional information regarding identified key audit matter, refer to note 31 *"Fee and commission income"* to the accompanying financial statements.

Key audit matter:	How the matter was addressed in our audit:
The Group recognized net revenue from management fees of mandatory and voluntary pension funds and open-end investment funds with public offering ("UCITS Funds"). As part of its operations, the Group is entitled to a fee for the management of mandatory and voluntary pension funds and UCITS Funds, calculated as a percentage of the net asset value (NAV) of each mandatory and voluntary pension fund and UCITS Fund it manages. The Group calculates the management fee daily and charges it monthly. The percentage of the management fee is defined in the prospectus of each fund and is calculated accordingly. Revenues from fees for managing mandatory and voluntary pension funds and UCITS Funds are an indicator of the Group's performance, which is visible through the increase in NAV of each fund and are significant to users of financial statements to assess the performance of the Management Company. Incorrect calculation of the management fee may result in a significant impact on the Group's financial statements. As a result, we have decided to include revenue from management fees as a key audit matter during our audit of the financial statements for the year ended 31 December 2021.	In order to address the risks associated with revenue from management fees, identified as a key audit matter, we designed audit procedures that allowed us to obtain sufficient appropriate audit evidence to conclude on this issue. We have performed the following audit procedures with respect to the area of management fee income: • Gaining an understanding of the control environment and internal controls established by the Management Board in the process of calculating the fee for the management of mandatory and voluntary pension funds and UCITS Funds; • Examination of the operational efficiency of the daily internal control between the Group and the depository bank through which the Group ensures that the daily net asset value of each fund under management, used to calculate the management fee, is accurate and complete; • Obtaining and comparing the final calculation of the daily net value of the assets of mandatory and voluntary pension funds and UCITS Funds with the data of the depository bank on net values, on the selected sample of the day; • Identification and comparison of the percentages of management fees applied in the calculation of management fee revenues with the percentages of management fees prescribed in the prospectuses of mandatory and voluntary pension funds and UCITS Funds and with the decisions of the Management Board defining the applied percentages of management fees; • Recalculation of revenue from management fee for all mandatory and voluntary pension funds and UCITS Funds and comparison with the amounts recognized by the Group during 2021; • Overview of disclosures in the financial statements relevant to the revenue from management fees and verifying that the disclosures have been prepared in accordance with the Group's accounting policies and in accordance with applicable accounting rules.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Maters (continued)

<table>
<tr><td colspan="2">Estimates used in calculation of technical reserves and the Liability Adequacy Test (“LAT”)
For the accounting framework refer to note 3 „Significant accounting polices”, section “Technical reserves and premiums”, and for accounting estimates and judgements in applying accounting policies see note 4 “Significant accounting estimates and judgements” section “Pension insurance”. For the additional information regarding identified key audit matter, refer to note 27 “Other liabilities” to the accompanying financial statements.</td></tr>
<tr><td>Key audit matter:</td><td>How the matter was addressed in our audit:</td></tr>
<tr><td>In connection with its insurance business, the Group must form appropriate technical reserves in accordance with the accounting regulations intended to cover liabilities from insurance contracts and potential losses due to risks arising from the insurance business it conducts.

As at 31 December 2021, the Group has technical reserves to cover liabilities from pension contracts in the amount of HRK 1,495 million.

Consistent with insurance industry practices, the Group uses actuarial models to support the valuation of technical insurance reserves. Model complexity can lead to errors as a result of inadequate/ incomplete data or design or design or application of the model.

Economic and actuarial assumptions, such as expected costs, discount rates, mortality, disease, longevity, and other assumptions, are key inputs for estimating these long-term liabilities.

The Group is required to conduct a liability adequacy test (“LAT”) at each reporting date. The test checks whether the liabilities are adequate in parallel with future contractual obligations.

Calculation of technical reserves include significant estimate of uncertain future outcomes, mostly due to total amount of settlement of liabilities as a result of insurance, including all guarantees given to insured, which may result in a significant impact on the Group's financial statements.

As a result, we have decided to include estimates used in calculation of technical reserves and in the liability adequacy test as a key audit matter during our audit of the financial statements for the year ended 31 December 2021.</td><td>In order to address the risks associated with technical reserves, identified as a key audit matter, we designed audit procedures that allowed us to obtain sufficient appropriate audit evidence to conclude on this issue.

We have used work of actuary specialist in conducting our audit procedures which included:

• Assessing the adequacy of the design and verify the implementation of identified internal controls relevant for actuarial valuation process;
• Overview of methodology and adequacy of actuarial methods used to estimate insurance liabilities;
• Estimation of actuarial judgements used in the models, which may vary depending on the product and/or product specifications, as well as the compliance of the model with the statutory accounting requirements for pension insurance companies in the Republic of Croatia;

Furthermore, we performed audit procedures to determine that models are accurately and completely calculated technical insurance reserves:
• Confirmation of the validity of the liability adequacy test (LAT) by the Management Board, which is a key test conducted to verify that the liabilities are adequate in parallel with future contractual obligations. Our procedures for the liability adequacy test included a review of projected cash flows and assumptions accepted in the context of the experience of the Group and the pension insurance companies; and
• Overview of documentation including actuarial assumptions and expert judgment.

Moreover, We conducted audit procedures regarding the adequacy of disclosure in the financial statements regarding pension insurance reserves to determine that they are in line with the statutory accounting requirements for pension insurance companies in the Republic of Croatia.</td></tr>
</table>

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Other matter

Financial statements of the Bank and the Group for the year ended 31 December 2020, had been audited by another auditor, who issued unmodified opinion on 31 March 2021.

Other Information

Management of the Bank is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the financial statements and our auditor's report.

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 of the Bank and the Group, which is included in the Annual Report, we have also performed the procedures prescribed by the Accounting Act. These procedures include examination of whether the Management Report include required disclosures as set out in the Articles 21 and 24 of the Accounting Act.

Based on the procedures performed during our audit, to the extent we are able to assess it, we report that:

1) Information included in the other information is, in all material respects, consistent with the attached financial statements.
2) Management Report has been prepared, in all material respects, in accordance with the Articles 21 and 24 of the Accounting Act.

Based on the knowledge and understanding of the Bank and the Group and its environment, which we gained during our audit of the financial statements, we have not identified material misstatements in the other information.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management of the Bank is responsible for the preparation and fair presentation of the financial statements in accordance with statutory accounting requirements for banks in the Republic of Croatia and for such internal control as Management of the Bank 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 of the Bank is responsible for assessing the Banks's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management of the Bank either intends to liquidate the Bank or the Group or to cease operations, or has no realistic alternative but to do so.

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

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.

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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management of the Bank.
- Conclude on the appropriateness of Management of the Bank'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 Company'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 Company 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, 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.

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INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and the Council and the Audit Act

We were appointed as the statutory auditor of the Bank and the Group on the Bank's General Shareholders' Meeting held on 13 May 2021 to perform audit of accompanying financial statements. Our total uninterrupted engagement has lasted 1 year and covers period 1 January 2021 to 31 December 2021.
We confirm that:

- our audit opinion on the accompanying financial statements is consistent with the additional report issued to the Audit Committee of the Company on 31 March 2022 in accordance with the Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council;
- no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided.

There are no services, in addition to the statutory audit, which we provided to the Bank and the Group and which have not been disclosed in the Annual Report.

Pursuant to the Decision of the Croatian National Bank on the structure and Content of Annual Financial Statements of credit institutions (Official Gazette 42/18, 122/20 and 119/21 hereinafter: "the Decision"), Management of the Bank has prepared the Supplementary reports for CNB, as presented in the Appendix to these financial statements, which comprise the Bank's and the Group's statement of financial position as at 31 December 2020, the Bank's and the Group's statement of profit or loss, the Bank's and the Group's statement of other comprehensive income, the Bank's and the Group's statement of changes in equity and the Bank's and the Group's statement of cash flows for the year then ended, as well as the reconciliation to the accompanying financial statements.
These forms and the reconciliation to the accompanying financial statements are the responsibility of the Management of the Bank and those do not represent components of the accompanying financial statements prepared in accordance with statutory accounting requirements for banks in the Republic of Croatia, but rather a requirement specified by the Decision. The financial information provided in those forms has been derived from the accompanying financial statements.

Katarina Kadunc

Director

Tihana Bažant

Certified auditor

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

Deloitte d.o.o.
31 March 2022

Radnička cesta 80,

10 000 Zagreb,

Croatia

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

(all amounts are shown in HRK millions)

Assets	Notes	Group 2021	Group 2020
Assets from continuing operations			
Cash and current accounts with banks	7	10,174	8,289
Obligatory reserve with the Croatian National Bank	8	1,870	1,598
Financial assets at fair value through profit or loss	9	1,887	1,651
Fair value hedge	9a	5	-
Placements with and loans to other banks	10	94	212
Loans and advances to customers	11	21,648	20,238
Investment securities measured at amortized cost	12a	2,577	1,730
Investment securities at fair value through other comprehensive income	12b	4,600	4,791
Property, plant and equipment	14a	703	791
Investment property	14b	136	57
Property, plant and equipment within financial lease	14c	129	119
Right of use assets	15	31	27
Intangible assets	16	401	348
Deferred tax assets	17	59	67
Tax prepayment		-	42
Other assets	18	165	167
Non-current assets held for sale	19	50	-
Total assets from continuing operations		**44,529**	**40,127**
Non-current assets from discontinued operations	**42**	**3**	**-**
Total assets		**44,532**	**40,127**

The accounting policies and accompanying notes form an integral part of these financial statements.

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(all amounts are shown in HRK millions)

Liabilities	Notes	Group 2021	Group 2020
Liabilities from continuing operations			
Financial liabilities at fair value through profit or loss	20	70	200
Deposits from banks	21	286	267
Deposits from companies and other similar entities	22	15,218	12,729
Deposits from individuals	23	18,323	16,410
Borrowings	24	1,085	2,834
Debt securities issued	25	978	-
Provisions for liabilities and charges	26	566	451
Tax liabilities		82	-
Lease liabilities	15a	31	30
Other liabilities	27	1,900	1,669
Subordinated liabilities	28	529	531
Total liabilities from continuing operations		**39,068**	**35,121**
Liabilities from discontinued operations	**42**	**1**	**-**
Total liabilities		**39,069**	**35,121**
Equity			
Share capital	38	3,621	3,621
Share premium	40	12	12
Additional TIER 1 capital	39	297	297
Capital reserve		1	1
Legal reserve	40	181	181
Fair value reserve	40	29	59
Retained earnings		819	708
Profit for the year		503	127
Total equity attributable to owners of the parent		**5,463**	**5,006**
Total liabilities and equity		**44,532**	**40,127**

The accounting policies and accompanying notes form an integral part of these financial statements.

(all amounts are shown in HRK millions)

	Notes	Group 2021	Group 2020
Interest income calculated using the effective interest method	29	879	934
Other interest income	29	39	37
Interest expense	30	(88)	(100)
Net interest income		**830**	**871**
Fee and commission income	31	870	670
Fee and commission expense	32	(410)	(276)
Net fee and commission income		**460**	**394**
Net (loss) / gain from financial instruments at fair value	33	53	(51)
Net gain on trading and foreign exchange differences from translation of monetary assets and liabilities	33	109	165
Net losses from hedge accounting	33	-	(1)
Other operating income	34	632	824
Trading and other income		**794**	**937**
Operating income		**2,084**	**2,202**
Operating expenses	35	(1,333)	(1,587)
Depreciation	35a	(136)	(142)
Impairment losses	36	108	(155)
Provisions for liabilities and charges	26	(115)	(137)
Profit before tax		**608**	**181**
Income tax expense	37	(115)	(54)
Profit for the year from continuing operations		**493**	**127**
Profit for the year from discontinued operations	**42**	**10**	**-**
Profit for the year		**503**	**127**

The accounting policies and accompanying notes form an integral part of these financial statements.

(all amounts are shown in HRK millions)

	Notes	Group 2021	Group 2020
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Change in fair value of equity financial assets at fair value through other comprehensive income, net of tax and realised amounts		*2*	*(24)*
Items that are or may be reclassified to profit or loss			
Change in fair value of debt financial assets at fair value through other comprehensive income, net of tax and realised amounts		*(33)*	*(26)*
Other comprehensive loss for the year, net of tax		**(31)**	**(50)**
Total comprehensive income for the year		**472**	**77**
Profit for the year			
Attributable to:			
- Owners of the parent		503	127
Basic earnings per share attributable to the equity holders of the parent	44	**139.00**	**35.25**
Diluted earnings per share attributable to the equity holders of the parent		**139.00**	**35.25**

The accounting policies and accompanying notes form an integral part of these financial statements.

	Share capital	Share premium	Additional TIER 1 capital	Capital reserves	Legal reserve	Fair value reserve	Retained earnings	Profit for the year	Total attributable to equity holders of the parent
	HRK millons	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millions	HRK millons
At 1 January 2020	**3,621**	**12**	**297**	**1**	**181**	**109**	**720**	**-**	**4,941**
Total comprehensive income									
Profit for the year	-	-	-	-	-	-	-	127	127
Other comprehensive income									
Change in fair value of equity financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	(24)	-	-	(24)
Change in fair value of debt financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	(26)	-	-	(26)
Total comprehensive income	-	-	-	-	-	(50)	-	127	77
Other changes	-	-	-	-	-	-	23	-	23
AT1 coupon	-	-	-	-	-	-	(35)	-	(35)
At 31 December 2020	**3,621**	**12**	**297**	**1**	**181**	**59**	**708**	**127**	**5,006**
Total comprehensive income									
Profit of the previous year	-	-	-	-	-	-	127	(127)	
Profit for the year	-	-	-	-	-	-	-	503	503
Other comprehensive income									
Change in fair value of equity financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	2	-	-	(2)
Change in fair value of debt financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	(33)	-	-	(33)
Total comprehensive income	-	-	-	-	-	(31)	127	376	472
Consolidation adjustments	-	-	-	-	-	-	9	-	9
Other changes	-	-	-	-	-	1	3	-	4
AT1 coupon	-	-	-	-	-	-	(28)	-	(28)
At 31 December 2021	**3,621**	**12**	**297**	**1**	**181**	**29**	**819**	**503**	**5,463**

The accounting policies and accompanying notes form an integral part of these financial statements.

(all amounts are shown in HRK millions)

	Notes	2021	2020
Cash flows from operating activities			
Profit before tax		608	181
Adjustments for:			
- Depreciation	35a	136	142
- Foreign exchange differences	33	47	(38)
- Realised gains / (losses) on financial assets at fair value	33	(53)	51
- Net release from impairment losses	26,36	7	292
- Net interest income	29,30	(830)	(871)
Changes in operating assets and liabilities			
Net (increase) of financial assets at fair value through profit or loss	9	(210)	(163)
Net (increase) in fair value hedge		(5)	-
Net decrease / (increase) in placements with banks, with original maturity more than three months		99	(104)
Net decrease / (increase) in obligatory reserve with the Croatian National Bank	8	(265)	380
Net increase in loans and advances to customers	11	(1.367)	(408)
Net decrease in other assets	18	67	86
Net increase in right of use assets	15	(16)	(3)
Net (decrease) / increase in financial liabilities at fair value through profit or loss	20	(130)	120
Net (decrease) / increase in deposits from banks		2	(913)
Net increase in deposits from companies and other similar entities		2,456	1,741
Net increase in deposits from individuals		1,810	870
Net increase in other liabilities		226	450
Interest received (excluding investment securities)		907	846
Interest paid		(79)	(119)
Net cash from operating activities before tax		***3,410***	***2,540***
Income tax paid		(19)	(21)
Net cash from operating activities		***3,391***	***2,561***

The accounting policies and accompanying notes form an integral part of these financial statements.

(all amounts are shown in HRK millions)

	Notes	Group 2021	Group 2020
Cash flows from investing activities			
Interest received from securities at fair value through other comprehensive income		60	60
Interest received from securities measured at amortized cost		47	31
Payments for purchase of securities measured at amortized cost		(831)	(950)
Proceeds from purchase of securities measured at fair value through other comprehensive income		183	401
Payments for purchase of property, plant and equipment and intangible assets		(156)	(229)
Proceeds from disposal of property, plant and equipment and intangible assets		67	50
Proceeds from disposal of property, plant and equipment within operational lease		(138)	-
Net cash from investing activities		***(768)***	***(614)***
Cash flows from financing activities			
Receipts from borrowings	24	10,520	8,106
Repayment of borrowings	24	(12,266)	(7,291)
AT1 coupon paid	41	(28)	(35)
Debt securities issued	25	975	-
Repayment of lease liabilities		1	(7)
Net cash from financing activities		**(798)**	**773**
Effects of foreign exchange differences on cash and cash equivalents		40	(5)
Net increase / (decrease) in cash and cash equivalents		**1,865**	**2,715**
Cash and cash equivalents at the beginning of the year	45	**8,370**	**5,655**
Cash and cash equivalents at the end of the year	45	**10,235**	**8,370**

The accounting policies and accompanying notes form an integral part of these financial statements.

(all amounts are shown in HRK millions)

Assets	Notes	Bank 2021	Bank 2020
Cash and current accounts with banks	7	10,163	8,277
Obligatory reserve with the Croatian National Bank	8	1,870	1,598
Financial assets at fair value through profit or loss	9	711	717
Fair value hedge	9a	5	-
Placements with and loans to other banks	10	112	93
Loans and advances to customers	11	20,523	18,961
Investment securities measured at amortized cost	12a	2,180	1,418
Investment securities at fair value through other comprehensive income	12b	4,425	4,519
Investments in subsidiaries	13	374	384
Property, plant and equipment	14a	476	527
Right of use assets	15	125	152
Intangible assets	16	368	314
Deferred tax assets	17	49	56
Tax prepayment		-	35
Other assets	18	123	113
Non-current assets held for sale	19	58	-
Total assets		**41,562**	**37,164**

The accounting policies and accompanying notes form an integral part of these financial statements.

(all amounts are shown in HRK millions)

Liabilities	Notes	Bank 2021	Bank 2020
Financial liabilities at fair value through profit or loss	20	69	199
Deposits from banks	21	541	424
Deposits from companies and other similar entities	22	15,450	12,967
Deposits from individuals	23	17,371	15,361
Borrowings	24	448	2,066
Debt securities issued	25	978	-
Provisions for liabilities and charges	26	547	431
Tax liabilities		80	-
Lease liabilities	15a	128	152
Other liabilities	27	278	285
Subordinated liabilities	28	529	531
Total liabilities		**36,419**	**32,416**
Equity			
Share capital	38	3,621	3,621
Share premium	40	12	12
Additional TIER 1 capital	39	297	297
Capital reserve		1	1
Legal reserve	40	173	173
Fair value reserve	40	27	56
Retained earnings		563	456
Profit for the year		449	132
Total equity		**5,143**	**4,748**
Total liabilities and equity		**41,562**	**37,164**

The accounting policies and accompanying notes form an integral part of these financial statements.

(all amounts are shown in HRK millions)

	Notes	Bank 2021	Bank 2020
Interest income calculated using the effective interest method	29	809	859
Other interest income	29	26	24
Interest expense	30	(74)	(76)
Net interest income		**761**	**807**
Fee and commission income	31	712	509
Fee and commission expense	32	(380)	(253)
Net fee and commission income		**332**	**256**
Net (loss) / gain from financial instruments at fair value	33	61	(37)
Net gain on trading and foreign exchange differences from translation of monetary assets and liabilities	33	113	160
Net losses from hedge accounting	33	-	(1)
Other operating income	34	82	91
Trading and other income		**256**	**213**
Operating income		**1,349**	**1,276**
Operating expenses	35	(680)	(708)
Depreciation	35a	(117)	(111)
Impairment losses	36	106	(149)
Provisions for liabilities and charges	26	(116)	(135)
Profit before tax		**542**	**173**
Income tax expense	37	(93)	(41)
Profit for the year		**449**	**132**

The accounting policies and accompanying notes form an integral part of these financial statements.

	Notes	Bank 2021	Bank 2020
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Change in fair value of equity financial assets at fair value through other comprehensive income, net of tax and realised amounts		*2*	*(24)*
Items that are or may be reclassified to profit or loss			
Change in fair value of debt financial assets at fair value through other comprehensive income, net of tax and realised amounts		*(32)*	*(23)*
Other comprehensive loss for the year, net of tax		**(30)**	**(47)**
Total comprehensive income for the year		**419**	**85**

The accounting policies and accompanying notes form an integral part of these financial statements.

	Share capital	**Share premium**	**Additional TIER 1 capital**	**Capital reserves**	**Legal reserve**	**Fair value reserve**	**Retained earnings**	**Undistributed profit for the year**	**Total attributable to equity holders of the parent**
	HRK millons	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millons**
At 1 January 2020	**3,621**	**12**	**297**	**1**	**173**	**103**	**467**	**-**	**4,674**
Total comprehensive income									
Profit for the year	-	-	-	-	-	-	-	132	132
Other comprehensive income									
Change in fair value of equity financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	(24)	-	-	(24)
Change in fair value of debt financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	(23)	-	-	(23)
Total comprehensive income	-	-	-	-	-	(47)	-	132	85
Other changes	-	-	-	-	-	-	24	-	24
AT1 coupon	-	-	-	-	-	-	(35)	-	(35)
At 31 December 2020	**3,621**	**12**	**297**	**1**	**173**	**56**	**456**	**132**	**4,748**
Total comprehensive income									
Profit of the previous year	-	-	-	-	-	-	132	(132)	-
Profit for the year	-	-	-	-	-	-		449	449
Other comprehensive income									
Change in fair value of equity financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	2	-	-	2
Change in fair value of debt financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	(32)	-	-	(32)
Total comprehensive income	-	-	-	-	-	(30)	132	317	419
Other changes	-	-	-	-	-	1	3	-	4
AT1 coupon	-	-	-	-	-	-	(28)	-	(28)
At 31 December 2021	**3,621**	**12**	**297**	**1**	**173**	**27**	**563**	**449**	**5,143**

The accounting policies and accompanying notes form an integral part of these financial statements.

(all amounts are shown in HRK millions)

	Notes	Bank 2021	Bank 2020
Cash flows from operating activities			
Profit before tax		542	173
Adjustments for:			
- Depreciation	35a	117	111
- Foreign exchange differences	33	43	(31)
- Net release from Impairment losses	26,36	10	284
- Realised (gains) / losses on financial assets at fair value	33	(61)	37
- Value adjustment of investment in subsidiaries	35	2	-
- Net interest income	29,30	(761)	(807)
- Dividend income from subsidiaries	34	(51)	(56)
Changes in operating assets and liabilities			
Net (increase) in financial assets at fair value through profit or loss	9	54	(32)
Net (increase) of fair value hedge		(5)	-
Net (increase) / decrease in placements with banks, with original maturity more than three months		(12)	5
Net (increase) / decrease in obligatory reserve with the Croatian National Bank	8	(265)	380
Net increase in loans and advances to customers	11	(1,546)	(572)
Net (increase) / decrease in other assets	18	(12)	79
Net (increase) / decrease in right of use assets	15	(13)	4
Net (decrease) / increase in financial liabilities at fair value through profit or loss	20	(130)	119
Net increase / (decrease) in deposits from banks		100	(887)
Net increase in deposits from companies and other similar entities		2,450	1,819
Net increase in deposits from individuals		1,906	886
Net increase / (decrease) in other liabilities		24	(46)
Interest received (excluding investment securities)		862	840
Interests paid		(62)	(68)
Net cash from operating activities before tax		***3,192***	***2,234***

The accounting policies and accompanying notes form an integral part of these financial statements.

	Notes	Bank 2021 HRK millions	Bank 2020 HRK millions
Income tax paid		-	(4)
Net cash from operating activities		***3,193***	***2,230***
Cash flows from investing activities			
Interest received from securities at fair value through other comprehensive income		53	55
Interest received from securities measured at amortized cost		37	18
Payments for purchase of securities measured at amortized cost		(745)	(950)
Proceeds from purchase of securities measured at fair value through other comprehensive income		85	548
Dividend received from subsidiaries	34;41	51	56
Payments for purchase of property, plant and equipment and intangible assets		(147)	(157)
Net cash from investing activities		***(666)***	***(430)***
Cash flows from financing activities			
Receipts from borrowings	24	10,332	7,863
Repayment of borrowings	24	(11,949)	(6,869)
Debt securities issued	41	975	-
AT1 coupon paid	25	(28)	(35)
Payment of lease liabilities		(6)	(34)
Net cash from financing activities		***(676)***	***925***
Effects of foreign exchange differences on cash and cash equivalents		40	(5)
Net increase / (decrease) in cash and cash equivalents		**1,890**	**2,720**
Cash and cash equivalents at the beginning of the year	45	**8,334**	**5,614**
Cash and cash equivalents at the end of the year	45	**10,224**	**8,334**

The accounting policies and accompanying notes form an integral part of these financial statements.

(all amounts are shown in HRK millions)

1. General information

Raiffeisenbank Austria d.d. (“the Bank” or “the Parent”) is a joint stock company incorporated and headquarted in Magazinska cesta 69, Zagreb, Republic of Croatia. The Bank is the parent of the Raiffeisenbank Austria Group (“the Group”) in the Republic of Croatia. These financial statements comprise the financial statements of the Bank and of the Group as defined in International Accounting Standard 27: “*Separate Financial Statements*” and in International Financial Reporting Standard 10: "*Consolidated Financial Statements*".

Composition of the Group:

Raiffeisenbank Austria d.d.
Raiffeisen stambena štedionica d.d.
Raiffeisen Leasing d.o.o.
Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.
Raiffeisen Consulting d.o.o.
Raiffeisen mirovinsko osiguravajuće društvo d.d.
Raiffeisen Invest d.o.o.
Bonus administrator d.o.o. in liquidation

Details of the Group composition and shareholders are provided in Note 13. *Investment in subsidiaries*.

Management and the governance

Supervisory Board at 31 December 2021 and changes during the year:

Andreas Gschwenter	President from June 8, 2017 to May 31, 2021
Peter Jacenko	Deputy President since January 1, 2021
Lovorka Penavić	Member since February 27, 2014
Sabine Zucker	Member since May 31, 2017
Hrvoje Markovinović	Member of the Supervisory Board since January 17, 2019
Herald Kreuzmair	Member since May 31, 2017
Gabor Kovacs	Member from April 30, 2020 to July 30, 2021
Iryna Arzner	Member since July 30, 2021

Supervisory Board at 31 December 2020 and changes during the year:

Andreas Gschwenter	President since June 8, 2017
Peter Jacenko	Deputy since June 8, 2017
Lovorka Penavić	Member since February 27, 2014
Sabine Zucker	Member since May 31, 2017
Hrvoje Markovinović	Member since January 17, 2019
Herald Kreuzmair	Member since May 31, 2017
Gabor Kovacs	Member since April 30, 2020
Markus Kirchmair	Member from June 30, 2016 to February 14, 2020

(all amounts are shown in HRK millions)

1. General information (continued)

Management and the governance (continued)

Management Board at 31 December 2021 and changes during the year:

Liana Keserić	President since May 13, 2020
Zoran Košćak	Member from July 1, 2017 to June 30, 2021
Georg Feldscher	Member since November 1, 2020
Višnja Božinović	Member since November 14, 2018
Ante Odak	Member since September 16, 2021

Management Board at 31 December 2020 and changes during the year:

Michael Georg Mueller	President from July 1, 2014 to January 22, 2020
Liana Keserić	President since May 13, 2020
	Member from January 1, 2016 to May 12, 2020
Daniel Mitteregger	Member from January 1, 2018 to November 1, 2020
Marko Jurjević	Member from July 1, 2017 to May 20, 2020
Zoran Košćak	Member from July 1, 2017 to June 30, 2021
Georg Feldscher	Member since November 1, 2020
Višnja Božinović	Member since November 14, 2018
Ante Odak	Member since September 16, 2021

Audit Committee at 31 December 2021 and changes during the year:

Andreas Gschwenter	President from June 21, 2019 to August 2, 2021
Harald Kreuzmair	President since August 3, 2021
Petar Jacenko	Vice President since June 21, 2019
Lovorka Penavić	Member since April 2018

Audit Committee at 31 December 2020 and changes during the year:

Andreas Gschwenter	President since June 21, 2019
Petar Jacenko	Vice President since June 21, 2019
Lovorka Penavić	Member since April 2018

These financial statements were authorised for issue by the Management Board on 31 March 2022.

This is English translation of statutory financial statements issued in Croatian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the financial statements takes precedence over translation.

2. Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with statutory accounting requirements for banks in the Republic of Croatia.

These financial statements represent the annual financial statements of the Bank, the parent company of Raiffeisenbank Austria d.d. group and the annual financial statements of the Group comprising the Bank and its subsidiaries (Note 13) (jointly "Group").

The legal requirements for bank accounting in the Republic of Croatia are based on International Financial Reporting Standards adopted by the European Union ("IFRS") and as prescribed by the Accounting Act (OG 78/2015, 134/2015, 120/2016, 116/2018, 42/2020 and 47/2020), also taking account of:

1. Credit Institutions Act (OG 159/2013, 19/2015, 102/2015, 15/2018, 70/2019 and 47/2020 and 146/2020); and
2. regulations of the Croatian National Bank ('CNB'), which, for the year ended 31 December 2021, include but are not limited to:
   - Decision on the classification of exposures into risk categories and the method of determining credit losses (OG 114/2017 and 110/2018);
   - Decision on the obligation to make provisions for litigations conducted against a credit institution (OG 1/2009, 75/2009 and 2/2010).

The Group has applied legal requirements for bank accounting in the Republic of Croatia to all periods presented in these financial statements.

According to Bank and the Group judgement, the closing balances at 31 December 2021 published in Financial statement report prepared according to legal requirements for bank accounting in the Republic of Croatia, have been aligned to the IFRS recognition and measurement requirements.

Requirement for maintaining a minimum of 0.8% of the total impairment for non-default exposures (stage 1 and stage 2), prescribed in the transitional and final provisions of the Decision on the classification of exposures into risk categories and the method of determining credit losses (OG 114/2017 and 110 / 2018), expired on 1 January 2020.

In 2020, for the purposes of legal local reporting on calculated provisions, the Bank applied the Post Model Adjustment, increasing the amount of provisions calculated by the model due to the Covid-19 pandemic. The adjustment was abandoned in 2021, thus aligning the calculation of provisions for financial assets on a local and group level.

Other differences identified at 31 December 2021 and 31 December 2020, listed below, do not raise material departure from the recognition and measurement requirements under IFRS.

- The CNB prescribes minimum levels of impairment losses against certain non-performing exposures for which individual impairment has been recognised, regardless of the net present value of expected future cash flows, so that the impairment so calculated may be different from the impairment loss required to be recognised in accordance with the IFRS requirements.
- Further, the CNB also prescribes minimal haircuts and minimum collection periods for certain impaired exposures where future cash flows are collections from adequate collaterals, and therefore the calculated impairment may be different.
- The Group recognises provisions for court cases by incorporating the probability of loss into measurement of the provision (i.e. if the probability of loss is estimated to be 10%, the provision will be calculated as 10% of the potential loss), which is contrary to IFRS, which require the full amount of potential loss to be recognised where it is probable that the court case will be lost.

2. Basis of preparation (contrinued)

a) Statement of compliance (continued)

The principal accounting policies applied in the preparation of these financial statements are summarised below. The Bank and the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except as disclosed in accounting policy referred to under 2 a).
Where specific accounting policies are aligned with accounting principles set out in IFRS, reference may be made to certain Standards in describing the accounting policies of the Bank and the Group and the amounts are properly published. Unless otherwise stated, these references are related to Standards as issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("EU") applicable as at 31 December 2021

b) Measurement

The financial statements are prepared on the fair value basis for derivative financial instruments, trading assets and liabilities, other financial assets and liabilities at fair value through profit or 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 amortised or historical cost. The historic cost is generally based on the fair value of the consideration given in exchange for the property.

In preparing the financial statements, management has made judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, and disclosure of commitments and contingencies at the reporting date, as well as amounts of income and expenses 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 results of which form the basis of making judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources.

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

Judgments made by management in the application of applicable standards that have significant effects on the financial statements and estimates with a significant risk of material adjustment in future periods are discussed in Note 4 Accounting estimates and judgements.

The owner of the Company is Raiffeisen Bank International AG, Vienna (RBI) with a 100% stake in the Bank. Raiffeisenbank Austria d.d. prepares consolidated financial statements for each reporting period involving the Bank and its affiliates, which are then consolidated in the financial statements of RBI.

c) Going concern

The Management considers that the Group is adequately funded and future revenues are predicted to enable the performance of current and long-term obligations.
As a result, the Management accepts the going concern basis of preparation of financial statements.

2. Basis of preparation (continued)

d) Basis of consolidation

Consolidation

The consolidated financial statements include the financial statements of the Bank and companies directly and indirectly controlled by the Bank (collectively referred to as the "Group"). The composition of the Group is presented in Note 13 Investments in subsidiaries.

The Group controls an investee when it has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes in one or more elements of control. This includes circumstances in which protective rights held by the Group (for example, those resulting from lending activity) become substantive and lead to the Group having power over an investee.

Business combinations

As of 1 April 2010, the Group has been applying the International Financial Reporting Standard 3: *Business Combinations* ("IFRS 3"). The Group accounts for business combinations using the acquisition method as at the date on which control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Negative goodwill on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.
Any contingent consideration is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

Business combinations involving entities under common control are recognised at their carrying amounts, and the difference is recognised directly in equity, as discussed in the section Acquisition of entities under common control.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it has rights to returns from its investment in the entity and has the ability to affect those returns through its power over the entity what is consistent with the definition from IFRS 10: *Consolidated financial statements* . The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The accounting policies of subsidiaries are adjusted when it is necessary to ensure consistency with the Group policies.
In the Bank's separate financial statements, investments in subsidiaries are accounted for at cost less any impairment.

2. Basis of preparation (continued)

d) Basis of consolidation (continued)

Loss of control

Upon the loss of control of the subsidiary, the Group derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity related to the subsidiary. Any resulting gain or loss is recognised in profit or loss. and is calculated as difference between:

a. the aggregate of the fair value of the consideration received and the fair value of any retained interest, and

b. the previous carrying amounts of assets (including goodwill) and liabilities of the subsidiary.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). Any interest retained in the former subsidiary is measured at fair value when control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments, depending on the level of influence retained.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Acquisition of entities under common control

Business combinations arising from the transfer of shares in entities that are under the control of the shareholder that controls the Group are recognised at their carrying amounts at the acquisition date. The acquired assets and liabilities are recognised at the carrying amounts recognised previously in the financial statements of the acquired company. Portions of the capital of the acquired companies are added to the respective positions within equity except the issued capital. Differences arising from the acquisition are recognised in retained earnings. The Group does not restate comparative information as if the member of the Group / RBI Group was always a member of the Group, but the acquisition is presented through profit and loss at the acquisition date.

Assets and liabilities managed in the name and on behalf of third parties

The Group provides services which are performed in the name and on behalf of third parties and custody services to companies, banks, individuals, and investment and pension funds (all non-Group) by holding and managing assets or investing the funds received in various financial instruments as directed by customers. The Group receives fee income for providing these services. Third party assets are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk relating to such placements, as it does not provide guarantee for these investments.

2. Basis of preparation (continued)

e) Standards, amendments and interpretations of existing standards

Initial application of new amendments to existing standards effective for the current reporting period

The Bank and the Group adopted the following new standards and amendments to existing standards and new interpretations published by the International Accounting Standards Board (IASB) and adopted in the European Union, which entered into force for the current reporting period:

- **amendments to IFRS 9 „Financial Instruments", IAS 39 „Financial Instruments: Recognition and Measurement", IFRS 7: „Financial Instruments: Disclosure", IFRS 4 „Insurance Contracts" and IFRS 16: „Leases" – Interest Rate Benchmark Reform - Phase 2,** (effective for annual reporting periods beginning on or after 1 January 2021).

- **amendments to IFRS 16 „Leases" -** COVID-19-Related Rent Concessions beyond 30 June 2021 (effective as of 1 April 2021 for annual reporting periods beginning on or after 1 January 2021)

- **amendments to IFRS 4 Insurance Contracts „Extension of the temporary exemption from IFRS 9"** adopted in the European Union on 16 December 2020 (the expiry date of the temporary exemption from applying IFRS 9 has been extended to annual periods beginning on or after 1 January 2023)

Adoption of the amendments to existing standards and interpretations of standards has not been relevant to the operations of the Bank and the Group and do not have a significant impact on the financial statements.

In the previous year, the Bank and the Group adopted *Interest Rate Benchmark Reform Phase 1*—Amendments to IFRS 9/IAS 39 and IFRS 7. These amendments modify the specific requirements of the hedge accounting to allow the application of hedge accounting for affected hedges to continue during periods of uncertainty, before the hedged items or hedge instruments have been modified as a result of the interest rate benchmark reform.

In the current year, the Bank and the Group adopted *Interest Rate Benchmark Reform Phase 2*– Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The adoption of these amendments allows the Bank and the Group to reflect the effects of the transition from interbank offered rates (IBOR) to alternative reference interest rates (also referred to as "risk-free rates" or "RFR") without encouraging accounting effects that would not provide useful information to users of financial statements.

As of 31 December 2021, the Group and the Bank no longer use LIBOR for all currencies except LIBOR in USD, which is still active, in line with the IBOR reform as stated above. The Bank's analysis shows that the Bank and Group exposures to LIBOR in USD are minimal. The euro loan portfolio of the Bank and Group is tied to EURIBOR, and the portfolio in CHF is currently (temporarily) fixed in accordance with the local regulation, the Croatian Consumer Act.

The Group and the Bank will not discontinue hedge accounting if the retrospective hedge effectiveness test falls outside the 80-125 percent range and the hedge relationship is subject to interest rate benchmark reforms. For those hedge relationships that are not subject to interest rate benchmark reforms, the Bank and the Group continue to abandon hedge accounting if retrospective efficiency is not within the 80-125 per cent range.

2. Basis of preparation (continued)

e) Standards, amendments and interpretations of existing standards (continued)

Standards and amendments to existing standards and interpretations published by the IASB and adopted in the European Union, but still not effective

Standards, amendments to existing standards and interpretations published by the IASB and adopted by the European Union, but not yet effective on or before the date of publication of the financial statements are stated below:

- **Amendments to IAS 1 „Presentation of Financial Statements"** – Disclosure of Accounting Policies (effective for annual reporting periods beginning on or after 1 January 2023)

- **Amendments to IAS 8 „Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates"** (effective for annual reporting periods beginning on or after 1 January 2023),

- **Amendments to IAS 16 „Property, Plant and Equipment"** – Proceeds before Intended Use (effective for annual reporting periods beginning on or after 1 January 2022)

- **Amendments to IAS 37 „Provisions, Contingent Liabilities and Contingent Assets"** – Onerous Contracts – Cost of Fulfilling a Contract (effective for annual reporting periods beginning on or after 1 January 2022)

- **Amendments to IFRS 3 „Business Combinations"** – Reference to the Conceptual Framework with Amendments to IFRS 3 (effective for annual reporting periods beginning on or after 1 January 2022)

- **IFRS 17 „Insurance Contracts"**, including amendments to IFRS 17 published by the IASB on 25 June 2020 – adopted in the European Union on 19 November 2021 (effective for annual reporting periods beginning on or after 1 January 2023)

- **Amendments to various standards due to „Annual Improvements to IFRS Standards 2018– 2020 cycle"**, resulting from the IFRS annual improvements process (IFRS 1, IFRS 9, IFRS 16 and IAS 41), primarily with the objective to correct inconsistencies and to clarify wording – adopted by the EU on 28 June 2021. (Amendments to IFRS 1, IFRS 9 and IAS 41 effective for annual reporting periods beginning on or after 1 January 2022. Amendment to IFRS 16 relates to the amendment to Illustrative Example, therefore the effective date is not stated).

2. Basis of preparation (continued)

e) Standards, amendments and interpretations of existing standards (continued)

New standards and amendments to standards published by the IASB, but not yet adopted in the European Union

The IFRS standards currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Bord (IASB), with the exception of the following new standards and amendments to existing standards, for the adoption of which the European Union has not yet taken a decision by the date of publication of the financial statements (the below stated effective dates apply to the IFRS standards issued by the IASB):

- **IFRS 14 „Regulatory Deferral Accounts”** (effective for annual periods beginning on o rafter 1 January 2016) – the European Commission decided to postpone the adoption of this transitory standard until the date of publication of the final version

- **Amendments to IAS 1 „Presentation of Financial Statements”** – Classification of Liabilities as Current or Non-current (effective for annual reporting periods beginning on or after 1 January 2023)

- **Amendments to IAS 12 „Income Taxes“** - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual reporting periods beginning on or after 1 January 2023)

- **Amendments to 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 (postponing their initially set effective date until the research project on equity method has been finalised)

- **IFRS 17 „Insurance Contracts”**, Initial application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual reporting periods beginning on or after 1 January 2023)

The Bank and the Group do not expect that the adoption of these new standards and changes to existing standards will lead to significant changes in the financial statements of the Bank and the Group in the period of initial application of the standards.

Hedge accounting for the financial assets and liabilities portfolio, the principles of which have not yet been adopted by the European Union, remains unregulated.

According to the estimates of the Bank and Group, the application of hedging accounting to a portfolio of financial assets or liabilities under **IAS 39: "Financial Instruments: Recognition and Measurement**" would not lead to significant changes in the financial statements if applied at the balance sheet date.

3. Significant accounting policies

Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest rate method. The effective interest method is a method of calculating the amortized cost of financial instruments and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including any fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, over the expected lifetime of the financial instrument or if necessary, shorter period to gross carrying amount of financial instruments at initial recognition.

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

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

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

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

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

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

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

Penalty interest is calculated when collected.

For information on when financial assets are credit-impaired, see Note 51 Risk Management.

3. Significant accounting policies (continued)

Interest income and expense (continued)

Interest income calculated using the effective interest method presented in the profit or loss and other comprehensive income includes:

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

Interest expense presented in income statement includes interest expenses on financial liabilities measured at amortised cost and financial liabilities at fair value through profit or loss.

Interest income on financial assets at fair value through profit or loss (FVTPL) are presented in other interest income position in the comprehensive income statement.

Fee and commission income and expense

Fee and commission income and expense arise from financial services provided by or to the Group, and mainly comprise fees related to domestic and foreign payments, the issue of guarantees and letters of credit, credit card business, insurance intermediation feesranju and other services provided by and to the Group including asset and investment management and custody services.

Fee and commission income and expense are recognised in profit or loss upon performance of specific service, except in cases when being accounted for in the effective interest rate calculation.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts after full execution.

Insurance intermediation fees are recognized when realized in whole. Income from insurance intermediation arises at the time of concluding insurance with the client. The expense is incurred on a monthly basis when the insurance company submits an invoice to the Bank for the contracts from the previous month.

Asset management fees related to investment fund management are recognised on an accruals basis over the period in which the service is fully provided. The same principle is applied for custody services that are continuously provided over an extended period of time.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commitment fees in relation to facilities where draw down is not probable are recognised over the term of the commitment. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part for itself, or has retained a part at the same effective interest rate as the other participants.

Fee and commission income and expense, which are an integral part of effective interest rate on financial assets and financial liabilities are included in the effective interest rate. Other fees and commissions are recognised as the corresponding services are executed. If a service is provided over time, income is recognised over a specific period of time, and if not, income is recognised at a given moment.

Dividend income

Dividends are recognised when approved by shareholders in the General Meeting.

Dividend income from equity securities or, in the case of separate financial statements of the parent company, investments in associates, are recognized in profit and loss when the right to receive the dividend is established.

(all amounts are shown in HRK millions)

3. Significant accounting policies (continued)

Gains less losses from trading and investment financial instruments

Gains less losses from trading securities include unrealised and realised gains and losses from derivative financial instruments, trading debt securities and other financial instruments initially designated at fair value through profit or loss and non-trading securities mandatorily measured at fair value through profit or loss. Gains less losses from investment securities comprise realised gains and losses from financial assets at fair value through other comprehensive income.

Gains less losses from foreign exchange trading

Gains less losses from foreign exchange trading include unrealized and realized gains and losses from foreign exchange spot transactions.

Functional and presentational currency

These financial statements are presented in Croatian Kuna (HRK), which is the functional currency. Amounts are rounded to the nearest million (unless otherwise stated).

The official exchange rates of the Croatian National Bank ('CNB') for the most significant currencies used for translation at 31 December was as follows:

31 December 2021	1 EUR =7.494622 kn	1 USD=6.623617 kn	1 CHF=7.226518 kn
31 December 2020	1 EUR =7.536898 kn	1USD=6.139039 kn	1 CHF=6.948371 kn

Foreign currency translation

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are at the reporting date translated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the spot exchange rate at the date that the fair value was determined and on the reporting date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction and are not retranslated. Foreign currency differences arising on translation are recognised in profit or loss, except for differences arising on the translation of equity instruments at fair value through other comprehensive income (FVOCI), which are recognised in other comprehensive income (refer below).

Changes in the fair value of monetary (debt) securities denominated in or linked to foreign currency classified as FVOCI are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Foreign currency exchange differences are recognised through profit or loss as foreign exchange gains or losses on the revaluation of monetary assets and liabilities and presented in investment income or expense. Other changes in the carrying amounts are recognised in other comprehensive income. Foreign exchange differences on revaluation of non-monetary financial assets (equity securities) denominated in or linked to foreign currency classified at FVOCI are recognised in other comprehensive income, along with other changes in their fair value.

3. Significant accounting policies (continued)

Financial instruments: classification

On initial recognition, a financial asset is classified depending on the business model for managing financial instruments and the contractual terms of cash flows, and is classified in one of the following measurement categories according to the measurement method:

- amortised cost,
- fair value through other comprehensive income (FVOCI) or
- fair value through profit or loss (FVTPL).

Classification and measurement of financial assets depend on the asset management business model and characteristics of cash flows of the asset.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions:

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

The objective of a business model may include holding a financial assets to collect contractual cash flows even if the financial asset is sold or is expected to be sold in future periods.

Financial assets measured at amortised cost relate to assets granted to customers without any intention to trade in them, and include cash and current accounts with bank, obligatory reserve with the Croatian National Bank, placements with and loans to other banks, loans and advances to customers, investment securities and other financial assets.

Financial assets measured at fair value through other comprehensive income

Financial assets are classified as assets subsequently measured at fair value through other comprehensive income (FVOCI) if the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income (FVOCI) only if it meets both of the following conditions and is not initially designated at fair value through profit or loss (FVTPL):

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

Financial assets measured through other comprehensive income include debt and certain equity instruments.

a) Debt instruments measured at fair value through other comprehensive income

For debt instruments measured at fair value through other comprehensive income, gains and losses are recognised in other comprehensive income, except for the following changes, which are recognised in profit or loss:

- interest revenue using the effective interest rate method,
- calculation of expected credit losses and reversal of recognised credit losses, and
- foreign exchange gains and losses.

3. Significant accounting policies (continued)

Financial instruments: classification (continued)

When a debt instrument measured by fair value through other comprehensive income is derecognised, cumulative gains or losses, previously recognized in other comprehensive income, are reclassified from other comprehensive income to profit or loss.

b) Investments in equity instruments designated at fair value option through other comprehensive income

All investments in equity instruments that are not classified at fair value through profit or loss are designated at initial recognition at fair value through other comprehensive income.

At initial recognition of an equity instrument not held for trading, the Bank can make an irrevocable election to present subsequent changes in fair value in other comprehensive income. This election is made by the decision of the Management Board for each individual investment and refers to strategic investments of the Bank based on which equity securities due to mandatory membership / ownership of shares to maintain business relations are classified according to fair value option through other comprehensive income.
Investments in equity instrument at fair value through other comprehensive income are initially recognised at fair value plus transaction costs. After initial recognition, the Group values equity instruments at fair value, and losses and gains resulting from changes in fair value are recognized in other comprehensive income.

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.

Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

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

Business model assessment

The business model is based on the activities undertaken by the Group in order to realise its business objective or in accordance with the Group's strategy or how the Group manages the financial assets in order to generate cash flows. The types of business models depending on how the Group generates cash flows are described below:

- Hold to collect business model

The objective of this business model is holding a financial asset to collect contractual cash flows. The sale of the asset is not an integral part of this business model, where amortised cost is applied, but some sales may be consistent with it if: a) sales are frequent but insignificant in value; b) sales are infrequent, but significant in value, c) the asset is close to maturity or d) the asset is sold due to an increase in the credit risk.

- Hold to collect and sell business model

The objective is achieved by both collecting contractual cash flows and selling financial assets. The frequency, value and reasons for the sales need not necessarily be observed, but as a rule, the sale is of higher frequency and more significant in value than compared to the hold to collect business model.

3. Significant accounting policies (continued)

Business model assessment (continued)

- Other business models

The objective to generate short-term profits through the sale of the financial assets and it includes assets held for trading. All other business models fall into the category of fair value through profit or loss.

A business model reflects the way the Group manages assets to realize cash flows. The Group makes an assessment of the objective of a business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The information considered when assessing relevance of a certain business model includes:

- the method of assessing the performance of the business model and of the assets held within that business model and reporting it to key management
- the risks that affect the performance of the business model (and the financial assets held within that business model) and especially its strategy for how those risks are managed;
- the method of paying compensation to key management (for instance, whether the compensation is based on the fair value of assets managed or on collected contractual cash flows);
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity; and
- assessment whether a specific sales activity and collection of contractual cash flows is an essential part or non-essential element of a business model (business model of holding assets to collect contractual cashflows versus a business model of holding assets for sale).

Financial instruments measured at fair value through profit and loss represent financial assets held for trading and are not part of a business model whose objective is to hold financial asset to collect contractual cash flows or part of a business model which is held to collect contractual cash flows and sell financial assets, but relate to other models.

Analysis of contractual cash flows (SPPI test)

Once the Group has determined that the objective of the business model of a certain portfolio is holding financial assets to collect contractual cash flows (or the objective is realized both by collecting contractual cashflows and by selling financial assets), it should assess whether, at a given moment, the contractual terms of the financial assets result in contractual cash flows which are solely payments of principal and interest on outstanding principal.

Therefore, interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. This assessment is made on an instrument-by-instrument basis on the date of initial recognition of the financial asset.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that may change the timing or amount of contractual cash flows such that this condition may not be fulfilled.

For the non retail portfolio, the SPPI test is performed as part of the product approval process. If a specific loan deviates from the standardized product in the approval process, a separate SPPI test need to be performed for it.

The SPPI test is also performed for the retail portfolio as part of the product approval process and deviations from the standard terms are not permitted.

3. Significant accounting policies (continued)

Analysis of contractual cash flows (SPPI test) (continued)

When making the assessment the Group considers:

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

If a particular instrument fails the SPPI test, it is classified as a financial asset at fair value through profit or loss.

Financial instruments: reclassifications

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

Financial instruments: recognition and de-recognition

Regular way purchases and sales of financial assets and financial liabilities at fair value through profit or loss, and financial assets at fair value through other comprehensive income, are recognised on the trade date. Financial assets and financial liabilities at amortised cost are recognised when loaned or borrowed.

The Group de-recognises financial instruments (in full or in part) when the rights to receive cash flows from the financial instrument have expired or when the financial asset has been transferred.
The Group transfers a financial asset, only and exclusively if it has transferred the contractual rights to receive the cash flows from the financial asset or it has retained the contractual rights to receive the cash flows from the financial asset, but has assumed a contractual obligation to pay those amounts to one or more recipients under the contract.

Any retained interest in transferred financial asset, which qualifies for derecognition, that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and consideration received (including any new asset obtained less any new liability undertaken) is recognised in the income statement. In addition, any cumulative gain or loss that had been recognised in other comprehensive income is also recognised in the income statement.

Any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, Any interest in transferred financial asset which qualifies for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

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

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

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

3. Significant accounting policies (continued)

Financial instruments: initial and subsequent measurement

Financial assets and liabilities are recognised initially at their fair value plus, for the 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 value, and transaction costs are immediately expensed in profit or loss.

On initial recognition, the Group measures financial instruments at fair value through profit or loss and financial assets at fair value through other comprehensive income at their fair value, including transactions costs.

Financial assets measuredat amortised cost and financial liabilities not designated at fair value through profit or loss are measured at amortised cost using the effective interest rate method, less any impairment.

Financial instruments: 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 profit or loss, and all realized gains and losses on sale or derecognition of such assets and liabilities.

Gains or losses from a change in the fair value of monetary assets at fair value through other comprehensive income are recognised through other comprehensive income and are disclosed in the statement of changes in equity. Impairment losses, foreign exchange gains and losses, interest income and amortisation of premium or discount using the effective interest method on monetary assets at fair value through other comprehensive income 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. Dividend income is recognised in profit or loss. Upon sale or derecognition of debt securities classified at fair value through other comprehensive income, any cumulative gains or losses on the instrument are transferred to profit or loss. Upon derecognition of equity instruments designated at fair value through other comprehensive income, all cumulative gains or losses are transferred to retained earnings.

Gains or losses on financial assets and financial liabilities carried at amortised cost are recognised as interest in profit or loss over the period of amortisation. Gains or losses may also be recognised in profit or loss on derecognition of a financial instrument or for impaired assets.

3. Significant accounting policies (continued)

Netting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities 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 Group's trading activity.

Fair value measurement principles

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

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

The fair value of quoted financial instruments in an active market is based on their closing bid prices. If a market for a financial instruments is not active, or, for any other reason, fair value cannot be reliably measured by market price, then the Group establishes fair value using internal evaluation techniques and models (Note 52). Such models include the use of prices achieved in recent transactions, reference to similar financial instruments, and discounted cash flow analysis, maximising the use of market inputs and relying as little as possible on entity-specific inputs. Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimate and the discount rate is a market rate.

The Group calibrates valuation techniques and performs validity tests using prices from observable current market transactions in the same instrument or based on other available observable market data. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

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

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

3. Significant accounting policies (continued)

Modifications of financial assets and liabilities

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

If the cash flows are substantially different, then the contractual rights to receive cash flows from the original financial asset have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

Any consideration received as part of the modification is accounted for as follows:

- consideration which is taken into account in determining the fair value of the new asset and consideration which represents reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other considerations are included in profit or loss as part of the gain or loss on derecognition.

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

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or consideration paid and considerations received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value.

The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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

3. Significant accounting policies (continued)

Impairment of financial assets

Significant increase of credit risk

Impairment of financial assets is carried out by expected credit loss calculation model, which is based on the classification of exposures in 3 stages based on the change in credit quality since initial recognition, *and the financial asset is classified as:*

- *Stage 1 – if there has been no significant increase in the credit risk of the financial asset and is subject to a 12-month expected credit loss.*

- *Stage 2 – if there has been a significant increase in the credit risk of a financial asset and the asset is subject to a lifetime expected credit loss.* For retail exposures, the estimated probability of default of each exposure is based on the scoring models used by the Bank in credit risk management and statistical models and statistical assessments depending on the type of exposure and it includes the impact of expected macroeconomic developments. Qualitative criteria include detecting forbearance indicators, holistic approach indicators, more than 30 days past due, start of default of other exposures of the client (since the definition of default on the product level for retail exposures is applied). If at least one indicator of a significant increase in credit risk is detected as compared to the assessment at the time a placement is originated, the placement is classified in Stage 2.
- *Stage 3 – where there is evidence of impairment of the financial asset and it is subject to lifetime expected credit loss. Stage 3 includes defaulted exposures.* The default status is determined on the basis of the regulatory requirements defined in Article 178 of Regulation (EU) No 575/2013, EBA Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013, EBA Regulatory Technical Standards on the materiality threshold for credit obligations past due under Article 178 of Regulation (EU) No 575/2013 and the provisions of the CNB Decision on amendments to the Decision implementing the part of Regulation (EU) No 575/2013 pertaining to the valuation of assets and off-balance sheet items and the calculation of own funds and capital requirements. In the retail segment, the default status is determined on the placement level, and for all legal entities (including Micro entities), the default is determined at the client level.

When determining whether the risk of default has significantly increased, the Bank uses reasonable and supportable information that is relevant and available. This includes quantitative and qualitative information based on the historical-based analysis and expert credit risk assessment, and includes forward looking information.

In retail exposures, the quantitative criterion or quantitative materiality threshold relates to the change in the estimate of probability of default during the remaining lifetime of the credit exposure, compared to the estimate on the exposure originating date for the relevant period. If the difference in the estimation of probability of default exceeds the materiality threshold, the material increase in credit risk is determined for that asset, which is consequently classified in Stage 2.

In non-retail exposures, the Bank considers that the internal credit rating represents a comprehensive estimate of the borrower's credit quality to determine the PD. The PD is adjusted using the macroeconomic forecast resulting in a point-in-time $PD_{(pit)}$ for determination IFRS 9 relevant material increase in credit risk. The list of qualitative criteria includes information that can be obtained from internal rating models used as inputs in rating, days past due, client's risk status, forborne classification of exposures and other factors prescribed by IFRS 9.

3. Significant accounting policies (continued)

Impairment of financial assets (continued)

Significant increase of credit risk (continued)

In retail exposures, the In retail exposures, the estimated probability of default of an exposure is based on the scoring models used by the Bank in managing credit risk, as well as statistical models and statistical estimates, depending on the type of exposure and including the impact of expected macroeconomic developments.

Qualitative criteria include identification of forbearance indicators, holistic access indicators, asset being more than 30 days past due, default on the customer’s other exposures (as the default definition applies on the product level for exposure to the private individuals). If at least one indicator of a significant increase in credit risk is detected in comparison with the assessment at the facility origination date, the asset is allocated to Stage 2 (category A2 / Stage 2).

Measuring expected credit loss

The Group measures expected losses in accordance with the IFRS requirements, Decision on the Classification of Exposures and the Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses.

The Group recognises loss allowance for expected credit losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

- financial assets that are debt instruments;
- lease receivables;
- off balance credit risk exposures; and
- given loans.

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

The Group measures loss allowance at an amount equal to lifetime expected credit losses, except for the following items, for which loss allowance is equal to 12-month expected credit losses:

- debt investment securities for which low credit risk is determined at the reporting date (Note 12a Investment securities measured at amortized cost and Note 12b Investment securities at faior value through other comprehensive income); and
- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition (Note 7 Cash and current accounts with banks, Note 8 Obligatory reserve with the Croatian National Bank, Note 10 Placements with and loans to other banks).

Loss allowances measured for leases receivable are always equal to lifetime expected credit losses using a practical solution to receivables in accordance with IFRS 9.

12-month expected credit loss is the portion of the expected credit losses that results from default events on a financial instrument possible within the next 12 months after the reporting date. Financial instruments for which a 12-month expected credit loss is recognised are referred to as ‘Stage 1 financial instruments’.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime expected credit loss is recognised, but are not credit-impaired are referred to as ‘Stage 2 financial instruments’.

3. Significant accounting policies (continued)

Impairment of financial assets (continued)

Measuring expected credit loss (continued)

Financial instruments are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover
- expected credit losses on Stage 3 assets are also measured taking into account the minimum requirements of the Decision on the classification of exposures.

Expected credit losses are calculated as the product of PD (probability of default), loss given default (LGDs) and exposures in defaults (EADs) during the remaining expected lifetime of financial assets and on the reporting date are discounted with the effective interest rate for exposures with a significant increase in credit risk (Phase 2 contracts). On the other hand, for exposures classified as Phase 1, expected credit loss is calculated over a one-year period, i.e. the expected credit loss of 1 year is estimated.

PD estimates represent PD at a particular point in time, updated annually according to the Group's historical experience, current conditions and associated future-oriented expectations.The probability of default status (PD) is the probability that the client (or placement in the retail segment) enter the default status in the next year or until the end of repayment ("lifetime PD").The loss given default (LGD) represents the Group's expectations regarding the loss after entering the default status, for placements that are not in default status at the time of assessment.
EAD includes future-oriented expectations on used balance sheet repayments and expectations on future utilization where applicable.
The measured expected credit losses reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

As the basis for calculating provisions in the Stage 1 and Stage 2 risk subcategories the Bank applies the calculation of 12-month and lifetime credit losses depending on the change in the estimated risk at the reporting date and the date of initial recognition of the financial asset. The risk assessment and calculation of provisions shall be determined in the models for measuring the expected credit loss, the calculation of which is determined by the parameters of probability of default (PD), loss given default (LGD), exposure at default (EAD), anticipating the time value of money.

Model parameters are calculated on the basis of historical time series of relevant data applied individually to financial assets. The estimate and calculation of expected credit losses are affected by, besides the statistically determined parameters, also by the key expected macro-economic developments complementing the forward-l When calculating provisions for Phase 3 exposures in risk groups B and C, the minimum expected loss rates prescribed by the Decision on the classification of placements are applied and in the case of secured placements, a calculation based on individual collateral value is taken in consideration as well.

3. Significant accounting policies (continued)

Impairment of financial assets (continued)

Measuring expected credit loss (continued)

In non-retail, when calculating provisions for Stage 3, the following methods are applied:

- NPV calculations with gone-concern approach (recovery from adequate collateral using a non-discounted WCCV and the period of collateral realization representing the minimum value that must be used) or going-concern approach (recovery from available cash flow)
- Estimates of default (days in default) – according to Article 12, paragraph 7 of the Decision on the classification of exposures into risk categories and the method of determining credit losses for exposures where the Bank applies ILLP calculation based on an assessment of future cash flows based on recovery from collateral (gone concern approach)

In doing so, the Bank takes into account the most conservative method.

In assessing whether there has been a significant increase in credit risk compared to the expected credit risk at the time of approval and estimates, the Group has included the impact of expected macroeconomic developments. Therefore, in the calculation of the ECL, the Group applies internally developed models that use parameters for PD and LGD. Future oriented macroeconomic factors, determined on regional level, are included in the risk parameters as relevant. Three scenarios are used in forecasting of macroeconomic variables (baseline with a weight of 50 percent, upside and downside scenarios with a weight of 25 percent).

The measurement of financial assets also reflects the best assessment of the effects of future conditions, and in particular the economic conditions affecting forward-looking probabilities of default and losses due to default status.

Restructured financial assets

Restructured exposures are exposures in which there was a change in the originally agreed terms of lending to customers with reduced financial possibilities, i.e. deterioration of any of the general classification criteria from Article 4 of the Decision on exposure classification.

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 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.

Through the implementation of the restructuring, each financial asset is classified in phase 2 or phase 3, depending on the identified needs for impairment of financial assets, i.e. whether one or more events have occurred that would indicate that the collection of each financial assets as a whole is not likely (default). Additionally, if the restructuring occurred at the same time with the re-recognition of financial assets and one or more events that indicate that recovery is not likely in full, financial assets will be classified as POCI, as described in more detail in the POCI placements section.

Credit-impaired financial assets

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

3. Significant accounting policies (continued)

Impairment of financial assets (continued)

Credit-impaired financial assets (continued)

Indicators that a financial asset is credit-impaired includes the observable data about the following events:

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

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

Presentation of impairment allowance for expected credit losses in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- undrawn loans and financial guarantee contracts: generally, as a provision.

Where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the undrawn commitment component separately from those on the drawn component:

- the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is recognised in the fair value reserve.

POCI assets - purchased or originated credit-impaired assets

Purchased or originated credit-impaired financial asset is an asset where there is objective evidence of impairment (default) at initial recognition.
Such assets are identified in the following cases:

- bank repurchases at a significant discount an asset for which there is objective evidence of impairment, or
- there is a significant modification of the instrument which is already in default, or
- the significant modification of the instrument is a reason for default, or
- bank grants a new loan to a customer whose significant portion of the portfolio is already in default

The Bank does not purchase any impaired assets (bad debts), therefore POCI assets are instruments that are initially recognised, or, subsequently recognised due to a significant modification, which were in default at recognition.

Write-offs

The Group writes off financial assets if there is information indicating that the debtor is in financial difficulty and there is no realistic possibility of recovery, e.g. when the debtor is placed in liquidation or has entered bankruptcy proceedings, or in the case of claims against commercial claims , and when the amounts are more than two years old (for companies – condition is that respective company has not demonstrated existence of an operating cash flow over the past two years). The write-off of financial assets may still be subject to implementing activities within the framework of group return procedures, taking into account, where appropriate, inadequate advice. All returns are recognized in the income statement.The Group writes off a trade claim when there is information indicating that the debtor is in severe financial difficulties and there is no realistic possibility of recovery, e.g. when the debtor has been placed in concession or has entered bankruptcy proceedings, or when trade claims have been overdue for more than two years, regardless of what appears earlier. Written-off receivables are not subject to enforcement activities.

3. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks, placements with other banks with original maturities of three months or less and items in course of collection and are carried at amortised cost in the statement of financial position. Gross exposure and impairment are presented in Note 7 Cash and current accounts with banks.

Derivative financial instruments

The Group exclusively uses derivative financial instruments for the purpose of hedging against interest and currency risk arising from business, financial and investment activities and does not hold or issue derivative financial instruments for speculative purposes. Derivative financial instruments are initially recognized in the statement of financial position and subsequently measured at fair value. Their fair value is determined based on quoted market prices. If their fair value is positive the derivatives are stated as assets, or as liabilities if their fair value is negative. Changes in the fair value of derivatives are included in the position "Net gains and losses on financial instruments at fair value through profit or loss". The group uses currency forward contracts, currency swaps, cross-currency interest rate swaps and interest rate swaps.

Hedge accounting

The Group continues to apply hedge accounting under IAS 39.
The Group uses derivative financial instruments to manage its exposures to interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which they are entered to and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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

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

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

Hedges that meet the strict criteria for hedge accounting are accounted for and further described in the sections below.

The hedge accounting is terminated when the Group terminates the hedging relationship, when the hedging instrument expires or is sold, terminated or used, or the hedge no longer meets the criteria for hedge accounting. From that date any adjustment of a carrying amount of a hedge item referring to the changes of a fair value related to risk being hedged is amortized through profit and loss.

If the hedged item is derecognized, the unamortised fair value is recognized immediately in profit and loss.
The Group applies fair value hedge of interest rate risk of customer loans on an individual basis and on a portfolio basis.

3. Significant accounting policies (continued)

Derivative financial instruments

Fair value hedges are hedges of the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

Changes in fair value of derivatives designated and eligible as fair value hedges are recognised immediately in profit or loss, together with any changes in fair value of the hedged items i.e. hedged liability which can be associated with hedged risk. The change in the fair value of a hedge instrument is recognised in profit or loss, together with the change in the fair value of a hedge item related to risk being hedged.

Treasury bills and debt securities

Treasury bills and debt securities that the Group holds for the purpose of short-term profit are classified as other business model recognised as financial instruments at fair value through profit or loss at inception.

Debt securities that the Group has the intent and ability to hold to maturity are classified within a business model whose objective is to hold financial asset to collect contractual cash flows and are measured at amortised cost .

Other treasury bills and debt securities which are held to meet liquidity requirements, are classified within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial instrument are measured at fair value through other comprehensive income and are within the range of impairment calculations for expected credit losses.

Equity securities and investments in open ended investment funds

Equity securities are classified at fair value through profit or loss or at fair value through other comprehensive income, and investments in open ended investment funds are classified as at fair value through profit or loss. More detailed explanations are presented in Note 3 Significant accounting policies, section Financial instruments - classification.

Placements with banks

Placements with banks are classified as financial assets measured at amortized cost and are carried at amortised cost less impairment losses.

Loans and advances to customers

Loans and advances are classified within a business model whose objective is to hold financial asset to collect contractual cash flows and are presented at amortised cost net of impairment losses.

3. Significant accounting policies (continued)

Investments in subsidiaries

In the Bank's separate financial statements investments in subsidiaries are accounted for at cost less any impairment. The Bank estimates the value of investments in subsidiaries annually, and monitors that estimated value is reconciled with fair value. If the estimated value is lower than the carrying amount, the Bank records impairment losses. Investments in subsidiaries are fully consolidated in the consolidated financial statements of the Group.

Non-current assets held for sale

Assets that are expected to be sold and will not be used for their own purposes are classified as Assets held for sale. The conditions that must be met for an asset to be classified according to IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* are as follows: the sale is highly likely and the sale will occur within 12 months of classification.
After classification as held for sale, the asset is measured at the carrying amount or fair value less costs to sell, depends which value is lower.

Borrowings and subordinated liabilities

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

Sale and repurchase agreements

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

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

The Group also enters into linked sale and repurchased transactions. In accordance with their substance, thse are similarly accounted or as transactions under repurchase or resale agreements, as described above.

Current accounts and deposits from banks and customers

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

3. Significant accounting policies (continued)

Additional Tier 1 capital

The Bank has issued Additional Tier 1 instrument that meets the conditions established in accordance with Article 52 of Regulation No. 575/2013. Based on the characteristics and general conditions, the Additional Tier 1 instrument is classified as an equity instrument in accordance with IAS 32 Financial Instruments: *Presentation*.

Additional Tier 1 capital is stated at the nominal value in HRK at the payment date.

Consideration paid to holders of the Additional Tier 1 instrument will be recognised directly in equity and presented in the statement of changes in equity. The payment will be recorded within retained earnings and will not be included in Common Equity Tier 1 capital. The Bank may, at its discretion, at any time cancel payments under the Additional Tier 1 instrument, and an unconditional obligation arises on payment under the Additional Tier 1 instrument (when the right to cancel the payment is not exercised).
The Additional Tier 1 instrument is defined as a non-monetary item.
Consideration paid on the redemption (maturity) of the Additional Tier 1 instrument and on the basis of regular payments of a share of the profit are monetary items.

Tehnical reserves and premiums

The technical reserve is calculated by the Company's actuaries in accordance with the methods prescribed by the legal framework and is formed in the amount of the present value of the Company's estimated future liabilities under the concluded contracts, calculated by applying an appropriate actuarial valuation that takes into account the Company's total future obligations under individual contracts, including the future pension payment costs.

Technical reserves are calculated annually for each contract by applying the net premium method. The sub-annual calculations of the technical reserves are performed by applying the linear interpolation method (based on the number of days elapsed) between the value of the technical reserve with the elapsed t years and the value of the technical reserve with elapsed t+1 years, from the date of exercising the pension entitlement.
Assets covering the technical reserves represent the net amount of assets available to cover technical reserves, i.e. total assets covering technical reserves minus financial liabilities and other receivables for pensions and the paid premium of the future period, separately for mandatory pension insurance, voluntary pension insurance - payments from open voluntary pension funds and direct one-off payments and voluntary pension insurance - payments from closed voluntary pension funds.
Income from premiums based on receipts from pension companies and direct one-off receipts is recognised in the Statement of Comprehensive Income at the time of activation of the pension contract.

3. Significant accounting policies (continued)

Income tax

The income tax is based on taxable profit for the year and comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case tax is also recognized in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at date of reporting, and any adjustments to tax payable in respect of previous years.

Deferred taxes are calculated by using the statement of financial position liability method, taking into account temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax 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 amounts of assets and liabilities are expected to be recovered or settled based on tax rates enacted or substantially enacted at the reporting date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.
Deferred tax assets and liabilities are not discounted and are classified as non-current assets and/or liabilities in the statement of financial position. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each reporting date, the Group reassesses unrecognised potential deferred tax assets and the recoverability of the carrying amount of recognised deferred tax assets.

(all amounts are shown in HRK millions)

3. Significant accounting policies (continued)

Property, plant and equipment

Items of property, plant and equipment are initially stated at cost. After initial recognition, each item of property, plant and equipment is presented at a cost less accumulated depreciation and any accumulated impairment losses.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such item when that cost is incurred when it is probable that future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed during the period in which they have incurred.

Depreciation is provided on a straight-line basis to allocate the costs of assets to their residual values over their estimated economic useful life. Land and assets under construction or developed are not depreciated.

The estimated useful lives are as follows:

	2021	**2020**
Buildings	50 years	50 years
Equipment	4 – 10 years	4 – 10 years
Office furniture	4 – 10 years	4 – 10 years
Assets under operating leases (depending on the duration of the contract, depreciated to the residual value)	2 – 20 years	2 – 20 years

The assets' residual values, depreciation method and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined as the difference between proceeds and net carrying amount, and are included in profit or loss.

Investment properties

Investment property is property held by the Group to earn rentals or for capital appreciation (including assets under construction), or both. Investment property is initially measured at cost, and subsequently reduced by accumulated depreciation and any impairment losses.

Subsequent cost of replacing part of existing property is recognized in the carrying amount of an investment property only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed during the period in which they are incurred. Where parts of property and equipment of significant value have different useful lives, they are accounted for as separate items of property, plant and equipment.

Land and assets under construction are not depreciated. Depreciation is provided on other investment property on a straight-line basis at prescribed rates designed to write off the cost over the estimated useful life of the asset.

The estimated useful life of the assets is as follows:	**2021**	**2020**
Leased property	50 years	50 years

Residual value, depreciation methods and the estimated useful lives are reviewed periodically and adjusted, if appropriate, at each reporting date. If the asset's carrying amount is greater than the estimated recoverable amount, it is immediately written down to the recoverable amount. Gains and losses on disposal are are determined as the difference between sale proceeds and the carrying amount and recorded in the statement of comprehensive income.

3. Significant accounting policies (continued)

Inventory and foreclosed assets

The Group occasionally acquires real estate and other asset in settlement of certain loans and advances and finance and operating lease contracts, which also includes returned leased assets of the subsidiary Raiffeisen Leasing d.o.o.. Such real estate and other assets are stated at the lower of the net carrying of the related loans and advances and the current fair value of such assets. Subsequent measurement is at the lower of cost and recoverable amount. The Group's intention is mainly to sell such assets, however, such assets in certain limited cases may end up being used by the Group.
Gains or losses on disposal are recognised in profit or loss.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Costs from development activities are capitalised if all of the requirements under IAS 38 "Intangible assets" are satisfied. Depreciation is provided on a straight-line basis over the estimated useful lives of intangible assets. Costs associated with developing or maintaining intangible assets are expensed as incurred. In accordance with CNB regulations, intangible assets include leasehold improvements.

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

	2021	**2020**
Leasehold improvements (depending on term of lease contract)	1 - 20 years	1 - 20 years
Software	5 - 10 years	5 - 10 years

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are tested for impairment at each reporting date.

If any indication of impairment exists, the asset's recoverable amount is estimated. For assets that have an indefinite useful life and intangible assets that are not yet available for use and goodwill, the recoverable amount is assessed at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash inflows that are largely independent from the Group's other assets and liabilities.Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a pro rata basis. If the carrying amount exceeds the recoverable amount of the cash-generating unit, the carrying amount of the goodwill is reduced first for the impairment loss and then proportionally the other assets of that unit based on the carrying amount of the individual asset in the unit.

3. Significant accounting policies (continued)

Impairment of non-financial assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. For the purpose of assessing value in use, the estimated future cash flows are discounted to their net 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.

Impairment losses recognised in previous years are reviewed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Once recognised impairment loss of goodwill is not subsequently reversed.

Provisions for liabilities and charges

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

The management determines the sufficiency of the provisions on the basis of insight into specific items, recent loss experience, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors.

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

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. The contract contains a lease component if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In order to assess whether a contract conveys the right to control the use of an identified asset, the Group uses a definition of lease under IFRS 16.

This policy applies to contracts entered into (or amended) on or after 1 January 2019.

Leases –Bank or Group as a lessor

Lessors continue to classify leases as operating or finance leases, using the same principle of classification as under the previous IAS 17.

The Group as lessor determines at the commencement date of the lease whether a lease is a finance lease or an operating lease.

For the purpose of classifying each lease, the Group conducts an overall assessment of whether the lease contract transfers substantially all the risks and rewards incidental to ownership of an asset. If this is the case, then the lease is a finance lease; otherwise the lease is an operating lease. When this assessment is performed, the Group considers certain indicators such as whether the lease covers most of the economic life of the property.

3. Significant accounting policies (continued)

Leases (continued)

a) Finance leases

Leases where the Group as lessor transfers substantially all the risks and rewards incidental to ownership to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognised. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognised over the term of the lease using the effective interest rate method. Finance lease receivables are included in loans and advances to customers.

b) Operating leases

Leases where the Group as lessor retains substantially all the risks and rewards incidental to ownership are included in tangible and intangible assets at cost net of accumulated depreciation. Rental income under operating leases is recognised in profit or loss on a straight-line basis over the term of the lease.

Leases – Bank or Group as a lessee

At the commencement date leases are recognised in the statement of financial position of the lessee as right-of-use assets and lease liabilitiesby lease.

Right-of-use assets are measured at cost comprising the following: (a) the amount of the initial measurement of lease liability, (b) any lease payments made at or before the commencement date less any lease incentives received, (c) any initial direct costs incurred by the lessee, and (d) an estimate of the restoration costs to be borne by the lessee in dismantling and disposing of the property, restoring the location of the property or restoring the property to the condition required under the terms of the lease. The lessee incurs a liability for these costs at commencement date of the lease or as a result of the use of the relevant property over a specified period.

After the commencement date of the lease the Group measures right-of-use assets at cost. The lessee measures the right-of-use assets at cost: (a) less accumulated depreciation and any accumulated impairment losses; and (b) adjusted for any remeasurement of lease liabilities. The Group applies the depreciation requirements in IAS 16 *Property, Plant and Equipment* to the depreciation of right-of-use assets, subject to the requirements in paragraph 32.

Lease liability is initially measured at the present value of the remaining lease payments which have not been made before that date. The discount rate is the interest rate implicit in the lease, if it can be determined; or, if that rate cannot be readily determined, the lessee applies the lessee's incremental borrowing rate. The lessee's incremental borrowing rate is the interest rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

After the lease commencement date, the lessee measures the lease liability at amortised cost using the effective interest method in order to: (i) increase the carrying amount of the lease to reflect interest on the lease liability; (ii) decrease the lease's carrying amount for the lease payments made; and (iii) remeasure the carrying amount of the lease to reflect the reassessment or modification of the lease, or to reflect modified lease payments that are substantially fixed.

After the lease commencement date the lessee recognises in the profit and loss: a) interest on lease liability;b) variable lease payments that are not included in the measurement of the lease liabilities in the period in which the event or condition that triggers those payments occurs and c) depreciation of right-of-use assets.

3. Significant accounting policies (continued)

Leases (continued)

IFRS 16 requires a remeasurement of a lease liability when there changes are made to the lease payment that is not accounted for as a separate lease.

The reassessment of the lease liability should reflect changes made to the lease payment. Lease payments are modified when there are: (i) changes in amounts expected to be payable under the residual value guarantee; (ii) change in future lease payments based on change in index or rate unless a variable interest rate is applied; The lessee is required to recognise the amount of the remeasured lease liability as revaluation of the right-of-use asset.

The discount rate is revised when the lease payments are modified based on the change of: (i) the variable interest rate (when the variable interest rate is used in the lease); (ii) the terms of the lease; (iii) the assessment of the possibility of purchasing the respective asset.

The revised discount rate is the interest rate implicit in the lease for the remaining lease period, if that rate can be readily determined, or, if that rate cannot be readily determined, then the lessee's incremental borrowing rate at the reassessment date is applied.

Lease modification

Lease modification is a change in the volume of the lease or in a lease fee that was not part of the original lease terms (for instance addition or termination of the right to use one or more items of the property, or extension or reduction the contractual life of the lease).
Exercising an existing purchase option or renewing a purchase option or modification of assessment whether a purchase option is likely to be exercised does not result in the modification of the lease but in the re-measurement of the lease liability and the right-of-use asset.

Employee benefits

a) Defined pension contributions

The Group pays contributions to mandatory pension plans on a mandatory, contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.
Since the Group records severance payments and jubilee awards based on actuarial calculations, all gains and losses from increases and decreases in the present value of the defined benefit obligation, which arise from actuarial risks, are recorded through profit and loss..

b) Long-term service benefits

The Bank provides employees with one-off retirement awards and awards for long-term service (jubilee awards). The Collective Agreement prescribes benefits for long-term service from 10 to 40 years of uninterrupted service with the employer, in the sum equal to the non-taxable amount as prescribed under the Income Tax Rules. The liabilities and costs of those benefits were calculated by the authorised acutary of the company. The obligation and costs of these benefits are determined by using the projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest rate of government bonds the currency and terms of which are consistent with the currency and estimated terms of the long-term benefit obligation.

3. Significant accounting policies (continued)

Employee benefits (continued)

c) Pension insurance

Provisions for pension insurance in subsidiary Raiffeisen mirovinsko osiguravajuće društvo d.o.o. have been computed by the Group's licensed actuary, in accordance with the method prescribed by the Law on Pension Insurance Companies and Payment of Pensions based on Individual Capitalised Savings.

Share capital

Share capital represents the nominal value of paid-in ordinary and non-redeemable noncumulative preference shares classified as equity, on which dividends are payable at the discretion of the ordinary shareholders, and are stated in HRK at nominal value.

Treasury shares

When the Bank repurchases ordinary or preference shares, the consideration paid is deducted from equity attributable to the Bank's equity holders until the shares are cancelled, reissued or disposed of. When such shares, which are classified as treasury shares, are subsequently sold or reissued, any consideration received, net of transaction costs, is included in equity attributable to the Bank's equity holders.

Retained earnings

Any profit for the year after appropriations is transferred to reserves, in accordance with General Assembly decisions.

Earnings per share

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

Off-balance sheet commitments and contingent liabilities

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

Financial guarantees contracts are commitments of the Group to make specific payments to the holder of the guarantee related to reimbursement for losses resulting from default by certain debtors to make payment when due in accordance with the terms of debt instruments.

Liabilities under financial guarantees are initially recognized at fair value which represents the consideration and its initial fair value is amortized over the term of the financial guarantee.

Liabilities under guarantees are stated at the higher of the loss allowance determined in accordance with IFRS 9 *Financial instruments* and the amount of the initially recognized loss less, if applicable, cumulative amount of revenue recognized in accordance with the principles of IFRS 15 Financial guarantees, and included in other liabilities.

Managed funds for and behalf of third parties

The Group manages assets on behalf of other companies and individuals and charges a fee for the services rendered. These assets do not represent the Group's assets and they are excluded from the statement of financial position.

4. Significant accounting policies and judgements

The Group makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated, and are based on historical experience and other factors such as the expected flow of future events that can be rationally assumed in existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty. The estimation of impairment losses in the Bank's credit risk portfolio represents the major source of estimation uncertainty. 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 in the profit and loss statement, are described below. Significant judgments made in determining the most appropriate methodology for estimating the fair value of financial instruments carried at fair value, are also described below.

The estimate of loan loss provisions represents management's best estimate of the default risk and expected credit losses on a financial asset, including all off-balance exposures, at the reporting date, and, also, the estimate of the fair value of real property collateral represents the main source of uncertainty of the estimate.

This and other key sources of uncertainty of the estimate, which have a significant risk of causing potential significant adjustments of the carrying amount of assets and liabilities in the subsequent financial year, are described further below.

These explanations complement the comment on fair value of financial assets and liabilities (Note 52) and management of financial risks (Note 51) as well as significant accounting policies (Note 3).

4. Significant accounting estimates and judgements (continued)

a) Classification of financial assets

Business model assessment

The Bank determines its business models based on the objective of financial asset portfolio management. Refer to Note 3 Significant accounting policies – Financial instruments: classification for details on the Bank's business models. In determining its business models, the Bank considers the following information:

- Management's intent and strategic objectives and the operation of the stated policies in practice;
- 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 volume of financial asset sales in prior periods, the reasons for such sales and the expectations about 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 Group considers the primary terms as follows and assess whether 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 consideration of the time value of money.

For details see Notes: 3. Significant accounting policies, Financial instruments: classification, Business model assessment and Analysis of contractual cash flow (SPPI test), 10. Loans and advances to other banks, note 11. Loans to customers and Note 51. Risk management.

b) Impairment of financial assets

Significant increase in credit risk

When determining whether the risk of default has significantly increased, the Bank uses reasonable and supportable information that is relevant and available. This includes quantitative and qualitative information based on the historical-based analysis and expert credit risk assessment, and includes forward looking information.

In retail exposures, the quantitative criterion or quantitative materiality threshold relates to the change in the estimate of probability of default during the remaining lifetime of the credit exposure, compared to the estimate on the exposure originating date for the relevant period. If the difference in the estimation of probability of default exceeds the materiality threshold, the material increase in credit risk is determined for that asset, which is consequently classified in Stage 2.

4. Significant accounting estimates and judgements (continued)

b) Impairment of financial assets (continued)

Significant increase in credit risk (continued)

In non-retail exposures, the Bank considers that the internal credit rating represents a comprehensive estimate of the borrower's credit quality to determine the PD. The PD is adjusted using the macroeconomic forecast resulting in a point-in-time $PD_{(pit)}$ for determination IFRS 9 relevant material increase in credit risk. The list of qualitative criteria includes information that can be obtained from internal rating models used as inputs in rating, days past due, client's risk status, forborne classification of exposures and other factors prescribed by IFRS 9.

In retail exposures, the estimated probability of default of an exposure is based on the scoring models used by the Bank in managing credit risk, as well as statistical models and statistical estimates, depending on the type of exposure and including the impact of expected macroeconomic developments.

Qualitative criteria include identification of forbearance indicators, holistic access indicators, asset being more than 30 days past due, default on the customer's other exposures (as the default definition applies on the product level for exposure to the private individuals). If at least one indicator of a significant increase in credit risk is detected in comparison with the assessment at the facility origination date, the asset is allocated to Stage 2 (category A2 / Stage 2).

Default

The default of the Bank's exposures is determined on the basis of the regulatory requirements defined in Article 178 of Regulation (EU) 575/2013, EBA Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013, EBA Regulatory Technical Standards on materiality threshold of credit obligations past due under Art.178 EU Regulation 575/2013 and CNB Decision amending the decision implementing Regulation (EU) no. 575/2013 in the valuation of assets and off-balance sheet items and the calculation of regulatory capital and capital requirements.

In the retail segment, the default is determined on the facility level for private individuals, whereas, for all legal entities (including Micro and SME customers), the default status is determined on the obligor level.

In non-retail segment, the Bank implemented a new default definition for non-retail customers as of 30 November 2019. The major change related to the change in the materiality threshold which is used to calculate days past due as one of the default indicators (overdue payment). As required by the regulator, the Bank monitored the calculation of DPD within the next 12 months from the date of application of the new default definition (and the new materiality threshold), until 30 November 2020, according to both the new and the old definition and as of 01 December 2020 the Bank monitors DPD only according to the new definition.

4. Significant accounting estimates and judgements (continued)

b) Impairment of financial assets (continued)

Change in calculation of expected credit loss in non-retail

In non-retail credit risk management, as of 1 January 2020, Article 21 paragraph 1 of the *Decision on the classification of exposures into risk categories and the method of determining credit losses*, ceased to be in force and effect, which prescribed the implementation of the interim provision, which stipulated that the total impairment on exposures classified into risk sub-categories A-1 and A-2 until 31 December 2019 may not be below 0.8% of the gross carrying amount of exposures in those risk sub-categories, except in the case of financial assets at fair value through other comprehensive income.

For the requirements of local regulatory reporting, the Bank uses the RBI model to assess and calculate provisions for stage 1 and stage 2.

The described change is stated in accordance with the regulatory opinion (Questions and Answers 2019-712) through the current year profit and loss as change in estimate.

On the basis of the abovementioned, the credit risk exposures presented in the financial statement per 31 December 2021 are in compliance with the requirements for recognition and measurement of the International Financial Reporting Standards. In the non-retail segment, the Bank uses the model of expected credit losses to recognise value impairments in keeping with the *Decision on the classification of exposures and* the IFRS 9 Financial instruments. Estimate of credit risk increase and calculation of expected credit losses, or impairment, is provided by the parent company within the framework of their relevant competence. Estimate and calculation of material increase in credit risk on account level are performed in keeping with the prescribed quantitative criteria (significant increase in credit risk), to which also qualitative criteria are added. Until September 2021, the Bank has locally applied the temporary post-model adjustment. The adjustment is made so as to include in the assessment and quantification of risks all relevant known information which arises from or is a result of various local factors specific to the domestic business environment (present, past and future information) and weren't include in model.
From abovementioned date, the Bank fully applies the estimate and calculation of the expected credit loss model in accordance with IFRS 9: Financial Assets, due to the fact that a component of special risk factors is included in the model as part of possible specific temporary or sudden occurrences within future-oriented informations.

Measuring expected credit loss in retail

Expected credit losses are calculated as a multiplication of PDs (probability of default), loss given default (LGD) and exposure at default (EAD) over the remaining expected life of the financial asset and are discounted at the reporting date using the effective interest rate for exposures with a significant increase in credit risk (Stage 2 contracts).

On the other hand, for exposures classified as Stage 1, the expected credit loss is calculated over a 12-month period, i.e. 12-month expected credit loss is estimated.

PD estimates represent point-in-time PD, adjusted annually according to the Group's historical experience, current conditions and forward-looking information.

Probability of default (PD) is an estimate of the likelihood that a client (or facility in the retail segment) will default in the next 12 months or for the remaining lifetime of the exposure (lifetime PD).

In the Retail segment, the likelihood of defaulting for the remaining lifetime of exposure is generated by a parametric survival function with existence of prepayment risk. Expectations of future macroeconomic developments are included in the estimation of the PD curve.

4. Significant accounting estimates and judgements (continued)

b) Impairment of financial assets (continued)

Loss given default (LGD) represents the Group's expectation of loss if there is a default event on a placement which was in non-default status at the time of assessment. LGD varies depending on the business segment (retail, non-retail) and product type (for instance, housing loans versus unsecured personal loans). LGD is expressed as a percentage of exposures at the default start date.

LGD estimates are determined on the basis of the history of recovery rates.

In the Retail segment, LGD is estimated on the basis of historical default data, recovery after default start date, and direct collection costs. Collection and collection costs are discounted. Unlike the regulatory LGD model, the LGD model used to calculate ECL for the purpose of measuring asset impairment does not include indirect collection costs or margins of conservativism, but does include the estimated impact of expected future developments in macroeconomic indicators.

EAD includes forward-looking forecasts on repayments of the amounts which were drawn and expectations of future drawdowns where applicable. For revolving products in the Retail segment, the Group makes no estimates of the future utilization limits, but the entire amount of the limit is considered in the EAD when calculating the expected loss.

For retail exposures (private individuals and Micro businesses) in default status (Stage 3), estimates of expected credit losses and the calculation of allowance are also made on a collective basis, using the BEEL parameters. Namely, the Bank has developed statistical loss estimate models (BEEL - best estimate of expected loss) for the private individuals portfolio, which are based on the Bank's own historical data. BEEL primarily depends on the months in default, and for unsecured placements it also depends on the number of months elapsed since the last loan payment was made.

Expected credit losses are recognised on initial recognition of financial assets. Credit loss allowance represents the management's best estimate of the risk of default and expected credit losses (ECL) on financial assets, including all off-balance sheet exposures, at the reporting date.

The management uses judgment to select the most appropriate point in the range which is the best estimate of the qualitative component contributing to ECL, on the basis of the assessment of business and economic conditions, historical loss experience, credit portfolio composition and other relevant indicators and advanced information indicators. The management uses judgment to ensure that the loss estimate based on historical experience is appropriately adjusted to reflect current economic conditions. Loss ratios are regularly compared to the actual loss experience. Changes to these assumptions may have a direct impact on credit loss allowance and may result in a change in loan loss provisions.

4. Significant accounting estimates and judgements (continued)

b) Impairment of financial assets (continued)

Shared credit risk characteristics

For the purpose of making appropriate estimation of the expected losses on a collective basis, the Group has segmented the portfolio by customer type (Corporate, SMB, Sovereign, Financial Institutions, Retail, PI/Micro) and product type/group, in order to build homogeneous groups with similar risk characteristics. The risk parameters (PD, LGD) are then determined for all segments, which are used for the estimation of the expected credit loss.

In the Retail segment, over 93 percent of the portfolio is covered by statistical risk assessment models, and the rest of the portfolio uses benchmark values, depending on the type of product and segment, and they are estimated at the RBI level.

Also, when calculating provisions for exposures in categories B and C, the minimum expected loss rates prescribed by the Decision on the classification of exposures are applied, and the calculation based on the individual collateral value is taken into account for the secured exposures.

The final calculation represents the higher of the estimated expected loss amount based on the BEEL parameters, the minimum rates set out in the Decision on the classification of exposures and, for the secured facilities, the amount less the expected cash flow from the sale of collateral.

Impairment allowance on assets that are individually assessed as impaired assets are based on the management's best estimate of the present value of cash flows expected to be recovered. In assessing these cash flows, the management makes judgments about the borrower's financial situation and the net value of any underlying collateral. Each impaired asset is valued separately, and the strategy for restructuring and estimating irrecoverable cash flows is independently approved by the credit risk function.

Forward looking information

When making an assessment whether there was an increase in credit risk in relation to the expected credit risk at the inception date and when estimating the expected credit loss, the Group has accounted for the expectations of macroeconomic developments in the future.

Therefore, in calculating ECL, the Group applies internally developed PD and LGD models. Macroeconomic forward-looking macroeconomic factors, determined on a regional level, are incorporated in risk parameters as relevant factors. Three scenarios are used in the forecast of macroeconomic variables (baseline with 50 percent weight, upside and downside scenarios with 25 percent weight).

All three scenarios for macroeconomic variable forecasts for the next three years are estimated by Raiffeisen Research (RBI). Estimates are made on a quarterly basis.

Additional risk factors that are specific to individual segments are also included where relevant.

Measurement of financial assets reflects also the best estimate of the impact of future conditions, and in particular the economic conditions affecting forward-looking information on probability of default and loss given default.

4. Significant accounting estimates and judgements (continued)

b) Impairment of financial assets (continued)

POCI assets

POCI is, by definition, "purchased or originated financial assets that are credit-impaired at initial recognition" and indicates that "a financial asset is credit-impaired when one or more events that have a detrimental impact on the expected future cash flows of that financial asset have occurred.“
In the retail segment, as those are generally restructured placements, this adjusted interest rate actually represents a new effective interest rate.
The credit loss is calculated as the amount of cumulative changes over the remaining period of recovery from initial recognition. Thus, if the expected loss at the reporting date is less than the initial impairment, the impairment losses at the reporting date will have a negative sign.

POCI assets in retail are automatically recognised in the application calculating EIR, modifications, expected losses and impairment allowance, based on information about new instrument recognition, which is created by the system and information that the asset is in default status. Thus, in the retail segment, any asset that, on initial recognition (initial measurement or, due to a significant modification, subsequent measurement), is also in default status, is automatically recognised as a POCI asset.

Non-retail POCI are assessed on an individual basis and are designated on the basis of general guidelines for determining significant modification (in accordance with internal instructions).

Low credit risk portfolio exceptions

The Bank estimates the expected credit loss based on the exceptions provided under IFRS 9 for the low credit risk portfolio for government bonds segment.

For details see notes: 3. Significant accounting policies; Impairment of financial assets, 11. Loans and advances to customers, 18. Other assets and 51. Risk management.

c) Fair value of derivatives

The fair value of OTC derivatives is determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

For details see Notes: 3. Significant accounting policies, 9. Financial assets at fair value through profit or loss and 20. Financial liabilities at fair value through profit or loss.

d) Fair value of treasury bills

The Group and the Bank determine the fair value of treasury bills issued by the Ministry of Finance of the Republic of Croatia, using an internal model which considers the residual maturity and the latest available auction prices of equivalent instruments. As at 31 December 2021, the carrying amount of treasury bills classified as financial assets at fair value through profit or loss and financial asset at fair value through other comprehensive income amounted to HRK 746 million (2020: HRK 511 million) for the Group and HRK 527 million (2020: HRK 384 million) for the Bank.
For details see Notes: 3. Significant accounting policies, 9. Financial assets at fair value through profit or loss and 12.b Investment securities at fair value through other comprehensive income.

4. Significant accounting estimates and judgements (continued)

e) Provisions for court cases

Provisions are recognized when the Group and Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The Bank's management maintains provisions on the level considered to be sufficient to absorb incurred losses and determines the sufficiency of provisions on the basis of insight into specific items, current legal circumstances, as well as other relevant factors.

According to the CNB decision a credit institution shall allocate litigation to:

- risk category A (no risk of loss or a cash flow outflow established, or up to 10 percent of the total estimated amount),
- risk category B (a risk of loss or cash outflow established between 10 percent and 70 percent of total estimated amount) or
- risk category C (high risk of loss or cash outflow of more than 70 percent of the total estimated amount).

The Bank estimates potential loss on individual litigation for the total claims amount (save in declaratory judgment actions), the interests amount until completion of a litigation (save in declaratory and offence proceedings) and the costs amount of a litigation. Exceptionally, in connection to litigations instituted by consumers against the bank with regard to lending in CHF, for individual litigations of the claims amount less than HRK 70 thousand, the Bank estimates potential loss for a portfolio of equivalent litigations.

Calculation of the portfolio provisions amount for the court cases in connection to CHF loans is based on the total number of individual litigations which the consumers instituted against the bank. The total amount of potential bank losses in consumer CHF-loan related court cases is calculated on the basis of the total number of active litigations increased by the number of disputes known by the Bank to have been instituted, but the courts had not served the applications instituting those proceedings on the Bank for submission of observations by 31 December 2021, and average amount of claims. The potential loss is increased for the relevant default interest and expected litigations costs until the final verdict. The Bank’s potential loss in the litigations for consumer lending in CHF is adjusted on the basis of the estimated probability of losing a litigation. After including the adjustment for probability, the total amount of provisions for litigations in connection to consumer lending in CHF is calculated. For all claims exceeding the HRK 70 thousand materiality threshold, individual provisions for court cases have been formed. Portfolio provisions have been formed covering the difference up to the total amount of provisions.

When determining present value of future cash outflows, and taking into consideration all factors that affected or will affect the time value of money, at 31 December 2020, the Bank calculated provisions for court cases against the Bank. The Bank applies the discount rate at the level of the statutory interest rate. Provisions for court cases are recorded in bank ledgers as provision costs for the periods in which such provisions are declared.

As explained in Note 26, the Group and the Bank booked HRK 467 million (2020: HRK 305 million) and HRK 449 million (2020: HRK 289 million) in provisions for principal, interest and costs of proceedings respectively, which management estimates to be sufficient. These amounts represent the Group's best estimate of the litigation losses, although the actual loss on the court cases pending against the Group may be significantly different. It is not practical for the management to assess the financial impact of changes in assumptions on the basis of which is estimated the provisioning requirement.

For details see Note 3. Significant accounting policies Provisions for liabilities and charges and Note 26 Provisions for liabilities and charges.

4. Significant accounting estimates and judgements (continued)

f) Provisions for severance payments and jubilee awards

In calculating provisions for severance payments and jubilee awards, the Group discounts expected future cash flows on those payments, using discount rates that, according to the management's judgment, best reflect the time value of money.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and has raised a valid expectation in those affected that the plan will be implemented, either by starting to implement the plan or announcing its main features to those affected. The determination of the amount of restructuring provisions includes only direct restructuring expenditures that are necessarily entailed by the restructuring but are not associated with the ongoing operations of the entity. For details see Note 3. Significant accounting policies Employee benefits and Note 26. Provisions for liabilities and charges.

g) Pension insurance

In accordance with the legal framework, the Group provides an option for members of voluntary and mandatory pension funds to transfer funds, when the conditions are met, into pension insurance company of their choice. The pension company pays pensions, in accordance with the Act on Pension Insurance Companies and conditions of concluded pension contracts under mandatory and voluntary pension insurance. Pensions are paid from the assets covering technical reserve calculated by the certified actuary of the pension insurance company in accordance with the good actuarial practice and law. The formation of reserves is one of the significant estimates related to the Group's financial statements. In the calculation of technical provisions Group applies the provisions of the Ordinance on minimum standards, method of calculation and criteria for the calculation of technical provisions pension insurance company.The management believes that the calculated technical reserve is sufficient to meet the obligations under pension contracts concluded by 31 December 2021.

For details see Notes: 3. Significant accounting policies Pension insurance and Technical provisions and premiums and 27. Other liabilities.

h) Deferred taxes

Deferred taxes are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management believes that the deferred tax assets recognized by the Bank and the Group are completely recoverable.

For details see Notes: 3. Significant accounting policies Income tax and 17. Deffered tax assets.

i) Additional Tier 1 capital

The Bank issued a bond (AT1) and classified it as an equity instrument based on fulfilment of requirements of IAS 32 - *Financial Instruments: Presentation*.
The bond includes no contractual obligation to deliver cash or another financial assets to another entity because both the potential redemption of the AT1 instrument and the cash payments are the Bank's discretion. The instrument also includes no contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank. Furthermore, the AT1 instrument will not be settled in the Bank's own equity instruments. There is no option that would result in the conversion of the instrument into ordinary shares of the Bank.

For details see Note 39. Additional Tier 1 capital.

4. Significant accounting estimates and judgements (continued)

j) Classification of lease contracts

The Group is a lessor in operating and finance leases. Lease where the Group as a lessor transfer substantially all the risks and rewards of the asset to the lessee then the contract is classified as finance lease. All other leases are classified as operating leases and related assets is included in property and equipment under operating leases at cost net of accumulated depreciation. In determining whether a lease should be classified as operating or finance lease, the Group considers the requirements under *IFRS 16 Leases*.
At the start of implementation of IFRS 16, the Bank determined that it has the following contracts which include a lease:

- Business premises lease agreements
- ATM location lease agreements
- Official car lease agreements

IFRS 16 introduced several limited exceptions for leases, which include:

- Leases with a lease term of 12 months or less, with no purchase option,
- Leases where the underlying asset is of low value (below EUR 5,000)

Therefore the Bank exempted the following contracts from the application of IFRS 16:

- ATM location lease agreements
- Printer lease agreements
- advertising space lease agreements

Also, all contracts with a residual term of less than one year are exempt from application of IFRS 16.
To calculate the discounted value of the future lease cost, or the right-of-use assets, the benchmark interest rate at the interbank curve plus liquidity cost, separately for EUR and separately for HRK, is used. Given that the benchmark interest rate is set at a round number of years, for contracts with a term which is not a round number of years, the rate is calculated as a linear interpolation. In cases where the interest rate is negative (for short contract terms), it is set at 0 percent. For details see Notes: 3. Significant accounting policies Leases, 15. Right of use assets an 15a) Lease liabilities.

k) Determination of control

In accordance with requirements of *IFRS 10 Consolidated Financial Statements*, the Group regularly reassess whether it has control over significant activities of debtors in financial distress which are unable to service when due their credit obligations to the Group. The Group assessed that there are no debtors which should be consolidated in 2021, which is consistent with the assessment made for 2020.

l) Valuation of instruments of Fortenova Group

Based on the ruling of the High Commercial Court of 26 October 2018 the Group acquired 2,482,121 sets of new Fortenova Group instruments (four convertible bonds and one depositary instrument). These instruments are classified as Financial assets at fair value through profit or loss for which the Bank will perform the valuation on a regular basis. Subsequently, another 627,743 sets of new instruments were acquired under pre-bankruptcy settlement.
Given that these are instruments issued by a newly established company under special court settlement, and there is no reliable method to determine the fair value of those instruments, and in accordance with the precautionary principle, the Group initially elected to value 1 set at 1 cent. During 2021, there were no changes in initial assumptions and the Group retained the same value as at 31 December 2021 (HRK 243 thousand). As at 31 December 2020 the value of the instrument was HRK 239 thousand. For details see Note 9. Financial assets at fair value through profit or loss.

4. Significant accounting estimates and judgements (continued)

m) Investment in subsidiaries

The management considers that investments in subsidiaries in non-consolidated financial statements are stated at at no higher than the recoverable amount. For details see Note 13. Investment in subsidiaries.

5. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which are subject to risks and rewards that are different from those of other segments. Limited segment information is presented in respect of the Group's operativne segments. The primary format of business segments is based on the Bank's management and internal reporting structure. The basis of accounting for all reporting segments is disclosed in Note 3 Significant accounting policies. Segmentation does not include geographic segmentation for the reason that all Companies operate primarily on territory of the Republic of Croatia, therefore geographical segmentation would not indicate additional value for readers.

There are no differences in measurements between reporting segments.

Business segments

The Group comprises the following main business segments:

Corporate Banking	Includes loans, deposits and other transactions and balances with corporate customers, and leasing activities at Group level. Includes also the results of Raiffeisen Leasing;
Retail Banking	Includes loans, deposits and other transactions and balances with retail customers;
Treasury	Undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities;
Asset and Liability Management	Manages structural liquidity of the Bank, assets and liabilities of the Bank, the liquid assets portfolio in the Bank's non-trading book, and the interest rate position in the non-trading book
Asset management	Includes management of investment and pension funds under Group management. Group members presented here are: Raiffeisen pension funds, Raiffeisen MOD and Raiffeisen Invest;
Shared services	Undertakes Group property management activities and centralised advertising and marketing services for the Group. Group members presented here are: Raiffeisen Consulting, Raiffeisen stambena štedionica and Raiffeisen Bonus.

(all amounts are shown in HRK millions)

5. Segment reporting (continued)

2021

Group	**Corporate**	**Retail**	**Treasury**	**Asset and Liability Management**	**Asset manage-ment**	**Shared services**	**Unallocated**	**Total**
Net interest income	171	491	54	67	25	22	-	830
Net fee and commission income	159	159	8	(3)	135	2	-	460
Trading and other income	156	36	38	5	524	14	31	804
Operating income	**486**	**686**	**100**	**69**	**684**	**38**	**31**	**2,094**
Operating expenses	(283)	(409)	(75)	(8)	(596)	(47)	(51)	(1,469)
Impairment losses	-	15	89	-	-	4	-	108
Provisions for liabilities and charges	33	4	-	-	2	-	(154)	(115)
Profit/(loss) before tax	**236**	**296**	**114**	**61**	**90**	**(5)**	**(174)**	**618**
Income tax expense	-	-	-	-	-	-	(115)	(115)
Profit/(loss) for the year	**236**	**296**	**114**	**61**	**90**	**(5)**	**(289)**	**503**
Segment assets	7,892	11,985	1,619	16,979	1,684	866	-	41,025
Unallocated assets	-	-	-	-	-	-	3,507	3,507
Total assets	**7,892**	**11,985**	**1,619**	**16,979**	**1,684**	**866**	**3,507**	**44,532**
Segment liabilities	16,082	17,419	415	611	1,599	967	1,976	39,069
Equity	-	-	-	-	-	-	5,463	5,463
Total equity and liabilities	**16,082**	**17,419**	**415**	**611**	**1,599**	**967**	**7,439**	**44,532**

Profit for the year from discounted business is shown on position Trading and other income.

(all amounts are shown in HRK millions)

5. Segment reporting (continued)

2020

Group	**Corporate**	**Retail**	**Treasury**	**Asset management**	**Shared services**	**Unallocated**	**Total**
Net interest income	205	533	91	23	19	-	871
Net fee and commission income	127	104	14	146	3	-	394
Trading and other income	107	28	17	741	9	35	937
Operating income	**439**	**665**	**122**	**910**	**31**	**35**	**2,202**
Operating expenses	(307)	(454)	(92)	(821)	(49)	(6)	(1,729)
Impairment losses	(71)	(98)	7	-	7	-	(155)
Provisions for liabilities and charges	(7)	(13)	-	-	(2)	(115)	(137)
Profit/(loss) before tax	**54**	**100**	**37**	**89**	**(13)**	**(86)**	**181**
Income tax expense	2	-	-	(14)	(1)	(41)	(54)
Profit/(loss) for the year	**56**	**100**	**37**	**75**	**(14)**	**(127)**	**127**
Segment assets	6,838	11,220	15,890	1,421	1,056	-	36,425
Unallocated assets	-	-	-	-	-	3,702	3,702
Total assets	**6,838**	**11,220**	**15,890**	**1,421**	**1,056**	**3.702**	**40,127**
Segment liabilities	13,659	15,398	2,734	1,362	1,068	900	35,121
Equity	-	-	-	-	-	5,006	5,006
Total equity and liabilities	**13,659**	**15,398**	**2,734**	**1,362**	**1,068**	**5,906**	**40,127**

(all amounts are shown in HRK millions)

6. Financial assets and financial liabilities

A. Classification of financial assets and financial liabilities

Classification of financial assets and financial liabilities is described in accounting policies in note 3. The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

2021 Group	**Note**	**Mandatory at FVTPL**	**Designated at FVTPL**	**FVOCI – debt instruments**	**FVOCI – equity instruments**	**Amortised cost**	**Total carrying amount**
Financial assets							
Cash and current accounts with banks	7	-	-	-	-	10,174	10,174
Obligatory reserve with the Croatian National Bank	8	-	-	-	-	1,870	1,870
Financial assets at fair value through profit or loss	9	545	1,342	-	-	-	1,887
Fair value hedge	9a	-	5	-	-	-	5
Placements with and loans to other banks	10	-	-	-	-	94	94
Loans and advances to customers	11	-	-	-	-	21,648	21,648
Investment securities							
- measured at amortized cost	12a	-	-	-	-	2,577	2,577
- measured at fair value	12b	-	-	4,589	11	-	4,600
Other financial assets		-	-	-	-	78	78
Total financial assets		**550**	**1,342**	**4,589**	**11**	**36,441**	**42,933**
Financial liabilities							
Financial liabilities at fair value through profit or loss	20	70	-	-	-	-	70
Deposits from banks	21	-	-	-	-	286	286
Deposits from companies and other similar entities	22	-	-	-	-	15,218	15,218
Deposits from individuals	23	-	-	-	-	18,323	18,323
Borrowings	24	-	-	-	-	1,085	1,085
Debt securuties issued	25						
Lease liabilities	15a	-	-	-	-	31	31
Other financial liabilities		-	-	-	-	177	177
Subordinated liabilities	28	-	-	-	-	529	529
Total financial liabilities		**70**	**-**	**-**	**-**	**35,649**	**35,719**

Note: amounts in tables in note 6 are presented net of relating impairment losses, and consequently certain individual items cannot be directly linked to the notes, but only total amounts.

(all amounts are shown in HRK millions)

6. Financial assets and financial liabilities (continued)

2020 Group	**Note**	**Mandatory at FVTPL**	**Designated at FVTPL**	**FVOCI – debt instruments**	**FVOCI – equity instruments**	**Amortised cost**	**Total carrying amount**
Financial assets							
Cash and current accounts with banks	7	-	-	-	-	8,289	8,289
Obligatory reserve with the Croatian National Bank	8	-	-	-	-	1,598	1,598
Financial assets at fair value through profit or loss	9	648	1,003	-	-	-	1,651
Fair value hedge	9a						
Placements with and loans to other banks	10	-	-	-	-	212	212
Loans and advances to customers	11	-	-	-	-	20,238	20,238
Investment securities							
- measured at amortized cost	12a	-	-	-	-	1,730	1,730
- measured at fair value	12b	-	-	4,781	10	-	4,791
Other financial assets		-	-	-	-	61	61
Total financial assets		**648**	**1,003**	**4,781**	**10**	**32,128**	**38,570**
Financial liabilities							
Financial liabilities at fair value through profit or loss	19	200	-	-	-	-	200
Deposits from banks	20	-	-	-	-	267	267
Deposits from companies and other similar entities	21	-	-	-	-	12,729	12,729
Deposits from individuals	22	-	-	-	-	16,410	16,410
Borrowings	23	-	-	-	-	2,834	2,834
Lease liabilities	15a	-	-	-	-	30	30
Other financial liabilities		-	-	-	-	194	194
Subordinated liabilities	28	-	-	-	-	531	531
Total financial liabilities		**200**	**-**	**-**	**-**	**32,995**	**33,195**

(all amounts are shown in HRK millions)

6. Financial assets and financial liabilities (continued)

2021 Bank	**Note**	**Mandatory at FVTPL**	**Designated at FVTPL**	**FVOCI – debt instruments**	**FVOCI – equity instruments**	**Amortised cost**	**Total carrying amount**
Financial assets							
Cash and current accounts with banks	7	-	-	-	-	10,163	10,163
Obligatory reserve with the Croatian National Bank	8	-	-	-	-	1,870	1,870
Financial assets at fair value through profit or loss	9	490	221	-	-	-	711
Fair value hedge	9a	5	-	-	-	-	5
Placements with and loans to other banks							
- measured at fair value	10	36	-	-	-	-	36
- measured at amortised cost	10	-	-	-	-	76	76
Loans and advances to customers							
- measured at amortised cost	11	-	-	-	-	20,523	20,523
Investment securities							
- measured at amortized cost	12a	-	-	-	-	2,180	2,180
- measured at fair value	12b	-	-	4,414	11	-	4,425
Other financial assets						41	41
Total financial assets		**531**	**221**	**4,414**	**11**	**34,853**	**40,030**
Financial liabilities							
Financial liabilities at fair value through profit or loss	20	69	-	-	-	-	69
Deposits from banks	21	-	-	-	-	541	541
Deposits from companies and other similar entities	22	-	-	-	-	15,450	15,450
Deposits from individuals	23	-	-	-	-	17,371	17,371
Borrowings	24	-	-	-	-	448	448
Debt securities issued	25	-	-	-	-	978	978
Lease liabilities	15a	-	-	-	-	128	128
Other financial liabilities		-	-	-	-	150	150
Subordinated liabilities	28	-	-	-	-	529	529
Total financial liabilities		**69**	**-**	**-**	**-**	**34,595**	**35,664**

(all amounts are shown in HRK millions)

6. Financial assets and financial liabilities (continued)

2020 Bank	**Note**	**Mandatory at FVTPL**	**Designated at FVTPL**	**FVOCI – debt instruments**	**FVOCI – equity instruments**	**Amortised cost**	**Total carrying amount**
Financial assets							
Cash and current accounts with banks	7	-	-	-	-	8,277	8,277
Obligatory reserve with the Croatian National Bank	8	-	-	-	-	1,598	1,598
Financial assets at fair value through profit or loss	9	585	132	-	-	-	717
Fair value hedge	9a						
Placements with and loans to other banks							
- measured at fair value	10	37	-	-	-	-	37
- measured at amortised cost	10	-	-	-	-	56	56
Loans and advances to customers							
- measured at amortised cost	11	-	-	-	-	18,961	18,961
Investment securities							
- measured at amortized cost	12a	-	-	-	-	1,418	1,418
- measured at fair value	12b	-	-	4,509	10	-	4,519
Other financial assets	18					33	33
Total financial assets		**621**	**132**	**4,509**	**10**	**30,343**	**35,616**
Financial liabilities							
Financial liabilities at fair value through profit or loss	19	199	-	-	-	-	199
Deposits from banks	20	-	-	-	-	424	424
Deposits from companiesand other similar entities	21	-	-	-	-	12,967	12,967
Deposits from individuals	22	-	-	-	-	15,361	15,361
Borrowings	23	-	-	-	-	2,066	2,066
Debt securities issued	24						
Lease liabilities	15a	-	-	-	-	152	152
Other financial liabilities	26	-	-	-	-	159	159
Subordinated liabilities	27	-	-	-	-	531	531
Total financial liabilities		**199**	**-**	**-**	**-**	**31,660**	**31,859**

(all amounts are shown in HRK millions)

7. Cash and current accounts with banks

	Group 2021	Group 2020	Bank 2021	Bank 2020
Cash in hand	1,514	1,401	1,514	1,401
Giro account with the Croatian National Bank	8,573	6,774	8,573	6,774
Current accounts with other banks				
- with parent bank	5	18	4	18
- with other Raiffeisen Bank International AG (“the RBI”) group banks*	8	17	8	17
- with other banks	74	84	64	72
	10,174	**8,294**	**10,163**	**8,282**
Impairment allowance	-	(5)	-	(5)
	10,174	**8,289**	**10,163**	**8,277**

*Other banks in („RBI“) Group are: Raiffeisenbank S.A. Romania, Raiffeisenbank d.d. BIH. , Raiffeisenbank A.D. Srbija, Raiffeisenbank A.S. Prague, Raiffeisenbank ZRT, Budapest

a) Movement in impairment allowance for cash and current accounts with banks

	Group 2021	Stage 1 i 2 Group 2020	Bank 2021	Stage 1 i 2 Bank 2020
At 1 January	5	32	5	31
Net charge recognised in profit or loss (Note 36)	(5)	(27)	(5)	(26)
At 31 December	**-**	**5**	**-**	**5**

(all amounts are shown in HRK millions)

8. Obligatory reserve with the Croatian National Bank

	Group 2021	Group 2020	Bank 2021	Bank 2020
Obligatory reserve in domestic currency	1,870	1,605	1,870	1,605
	1,870	**1,605**	**1,870**	**1,605**
Impairment allowance	-	(7)	-	(7)
	1,870	**1,598**	**1,870**	**1,598**

a) Movement in impairment allowance for obligatory reserve with the Croatian National Bank

	Group 2021	Stage 1 i 2 Group 2020	Bank 2021	Stage 1 i 2 Group 2020
At 1 January	7	16	7	16
Net charge recognised in profit or loss (Note 36)	(7)	(9)	(7)	(9)
At 31 December	**-**	**7**	**-**	**7**

The CNB determines the requirement for banks to calculate obligatory reserve which is required to be deposited with the CNB and maintained in the form of liquid assets. The obligatory reserve requirement as at 31 December 2021 was 9% (2020: 9%) of relevant HRK and foreign currency deposits and borrowings.

As at 31 December 2021 the required rate of HRK denominated part of the obligatory reserve to be deposited with the CNB amounted to 70% (2020: 70%), while the remaining 30% had to be maintained in the form of liquid receivables. 75% of foreign currency obligatory reserve was required to be held in HRK, and this is added to the HRK portion of the obligatory reserve.

Banks were required to maintain a minimum of 2% of their foreign currency reserve requirement as the average daily balance of funds on their own foreign currency settlement accounts with the CNB.

(all amounts are shown in HRK millions)

9. Financial assets at fair value through profit or loss

	Group 2021	Group 2020	Bank 2021	Bank 2020
Financial assets mandatorily measured at fair value through profit or loss:				
Non derivative trading assets:				
Debt securities:				
- Domestic government bonds, listed	330	395	330	395
- Foreign government bonds, listed	-	1	-	1
- Securities issued by companies, listed	57	13	57	13
	387	**409**	**387**	**409**
Derivative trading assets:				
Positive fair value of OTC derivative instruments	70	141	79	157
	70	**141**	**79**	**157**
Non-trading financial assets mandatorily measured at fail value through profit or loss				
Equity securities	24	20	24	19
Investments in investment funds managed by related persons and third parties	64	78	-	
	88	**98**	**24**	**19**
Total financial assets mandatorily measured at fair value through profit or loss	**545**	**648**	**490**	**585**
Financial assets designated at option fair value through profit or loss				
Non derivative trading assets:				
Debt securities:				
- Domestic government bonds, listed	836	776	-	-
- Bonds issued by banks, listed	76	26	47	19
- Securities issued by companies, listed	211	125	174	113
- Treasury bills issued by the Ministry of Finance	219	76	-	-
Total financial assets at fair value option through profit or loss	**1,342**	**1,003**	**221**	**132**
	1,887	**1,651**	**711**	**717**

Investment in treasury bills issued by the Republic of Croatia Ministry of Finance in the amount of HRK 59 million (2020: HRK 76 million) in the Group represent the guarantee deposit in accordance with the Law on Mandatory Pension Funds and Law on Voluntary Pension Funds.

9.a) Fair value hedge

	Group 2021	Group 2020	Banka 2021	Banka 2020
Interest rate swap	5	-	5	-
	5	-	5	-

(all amounts are shown in HRK millions)

10. Placements with and loans to other banks

	Group 2021	Group 2020	Bank 2021	Bank 2020
Loans and deposits at amortised cost				
- Loans	15	38	16	38
- Deposits	79	174	60	18
	94	**212**	**76**	**56**
Loans, mandatorily measured at fair value through profit or loss	-	-	36	37
	94	**212**	**112**	**93**
Impairment allowance	-	-		-
	94	**212**	**112**	**93**

a) Movement in impairment allowance for placements and loans to other banks

Group			**2020**	
	Stage 1	**Total**	**Stage 1**	**Total**
At 1 January	-	-	4	4
Net release recognised in profit or loss (Note 36)	-	-	(4)	(4)
At 31 December	**-**	**-**	**-**	**-**

Bank		**2021**		**2020**
	Stage 1	**Total**	**Stage 1**	**Total**
At 1 January	-	-	4	4
Net release recognised in profit or loss (Note 36)	-	-	(4)	(4)
At 31 December	**-**	**-**	**-**	**-**

(all amounts are shown in HRK millions)

11. Loans and advances to customers

	Group 2021	Group 2020	Bank 2021	Bank 2020
Loans to companies and similar entities at amortised cost				
- denominated in domestic currency	2,300	2,145	2,399	2,280
- denominated in or linked to foreign currency	5,115	4,555	5,380	4,813
Loans to state and public sector at amortised cost				
- denominated in domestic currency	387	382	387	382
- denominated in or linked to foreign currency	719	677	719	677
Loans to individuals at amortised cost				
- denominated in domestic currency	7,529	8,036	7,398	7,884
- denominated in or linked to foreign currency	5,731	4,660	5,216	4,048
Finance lease receivables, denominated in or linked to foreign currency	880	946	-	-
	22,661	**21,401**	**21,499**	**20,084**
Impairment allowance	(1,013)	(1,163)	(976)	(1,123)
	21,648	**20,238**	**20.523**	**18.961**

11. Loans and advances to customers (continued)

The following tables below present the exposures across credit risk levels at 31 December 2020 and 31 December 2021:

Group 2021	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers					
Low risk	7,969	512	-	7	**8,488**
Medium risk	6,354	1,924	-	27	**8,305**
High risk	652	1,112	-	14	**1,778**
Default	-	-	733	233	**966**
Without rating	2,486	515	105	18	**3,124**
Balance sheet impairment allowance	(67)	(238)	(577)	(131)	**(1,013)**
Carrying amount	**17,394**	**3,825**	**261**	**168**	**21,648**

Bank 2021	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	HRK millions	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**
Loans and advances to customers					
Low risk	8,066	511	-	7	**8,584**
Medium risk	6,147	1,909	-	27	**8,083**
High risk	633	1,027	-	14	**1.674**
Default	-	-	672	232	**904**
Without rating	1,756	381	100	17	**2,254**
Balance sheet impairment allowance	(65)	(235)	(546)	(130)	**(976)**
Carrying amount	**16,537**	**3,593**	**226**	**167**	**20,523**

(all amounts are shown in HRK millions)

11. Loans and advances to customers (continued)

Group 2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers					
Low risk	5,112	2,225	-	1	**7,338**
Medium risk	3,902	4,687	-	32	**8,621**
High risk	413	851	1	4	**1,269**
Default	-	-	849	187	**1,036**
Without rating	2,223	794	106	14	**3,137**
Balance sheet impairment allowance	(88)	(305)	(617)	(153)	**(1,163)**
Carrying amount	**11,562**	**8,252**	**339**	**85**	**20,238**

Bank 2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers					
Low risk	5,290	2,207	-	1	**7,498**
Medium risk	3,741	4,580	-	32	**8,353**
High risk	360	767	-	4	**1,131**
Default	-	-	764	186	**950**
Without rating	1,422	618	98	14	**2,152**
Balance sheet impairment allowance	(84)	(300)	(587)	(152)	**(1,123)**
Carrying amount	**10,729**	**7,872**	**275**	**85**	**18,961**

11. Loans and advances to customers (continued)

a) Movement in exposures and impairment allowance for loans to customers (including finance lease receivables):

Group 2021 (HRK millions)	Stage 1	Stage 2	Stage 3	POCI	Total
On-balance sheet exposure					
Gross carrying amount at 1 January	**11,650**	**8,557**	**956**	**238**	**21,401**
New approvals	7,185	392	81	137	**7,795**
Derecognition (not including writeoffs)	(2,097)	(1,124)	(127)	(45)	**(3,393)**
Transfer to Stage 1	3,592	(3,551)	(41)	-	**-**
Transfer to Stage 2	(823)	866	(43)	-	**-**
Transfer to Stage 3	(73)	(242)	315	-	**-**
POCI	(3)	(4)	(2)	9	**-**
Amounts recovered during the year	(1,951)	(819)	(205)	(34)	**(3,009)**
Write-offs	(2)	(8)	(95)	(6)	**(111)**
Effects of exchange differences	(17)	(4)	(1)	-	**(22)**
At 31 December	**17,461**	**4,063**	**838**	**299**	**22,661**

Bank 2021 (HRK millions)	Stage 1	Stage 2	Stage 3	POCI	Total
On-balance exposure					
Gross carrying amount at 1 January	**10,813**	**8,172**	**862**	**237**	**20,084**
New approvals	6,880	377	77	136	**7,470**
Derecognition (does not include write-off)	(2,029)	(1,112)	(126)	(45)	**(3,312)**
Transfer to Stage 1	3,532	(3,493)	(39)	-	**-**
Transfer to Stage 2	(805)	847	(42)	-	**-**
Transfer to Stage 3	(69)	(233)	302	-	**-**
POCI	(3)	(4)	(2)	9	**-**
Amounts recovered during the year	(1,698)	(714)	(166)	(34)	**(2,612)**
Write-offs	(2)	(8)	(93)	(6)	**(109)**
Effects of exchange differences	(17)	(4)	(1)	-	**(22)**
At 31 December	**16,602**	**3,828**	**772**	**297**	**21,499**

(all amounts are shown in HRK millions)

11. Loans and advances to customers (continued)

a) Movements in exposure and impairment allowance for loans to customers (including finance lease receivables) (continued):

Group 2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
On-balance exposure					
Gross carrying amount at 1 January	**13,484**	**6,350**	**866**	**258**	**20,958**
New approvals	5,396	1,139	47	70	6,652
Derecognition (not including write-offs)	(3,066)	(605)	(67)	(38)	(3,776)
Transfer to Stage 1	248	(234)	(14)	-	-
Transfer to Stage 2	(3,005)	3,056	(51)	-	-
Transfer to Stage 3	(276)	(190)	466	-	-
POCI	-	-	(1)	1	-
Amounts recovered during the year	(1,136)	(956)	(122)	(40)	(2,254)
Write-offs	-	(2)	(176)	(13)	(191)
Effects of exchange differences	5	(1)	8	-	12
At 31 December	**11,650**	**8,557**	**956**	**238**	**21,401**

Bank 2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
On-balance exposure					
Gross carrying amount at 1 January	**12,164**	**6,282**	**812**	**256**	**19,514**
New approvals	5,098	1,069	47	70	6,284
Derecognition (not including write-offs)	(2,845)	(596)	(63)	(38)	(3,542)
Transfer to Stage 1	225	(213)	(12)	-	-
Transfer to Stage 2	(2,654)	2,705	(51)	-	-
Transfer to Stage 3	(224)	(176)	400	-	-
POCI	-	-	(1)	1	-
Amounts recovered during the year	(956)	(896)	(104)	(39)	(1,995)
Write-offs	-	(2)	(175)	(13)	190
Effects of exchange differences	5	(1)	9	-	13
At 31 December	**10,813**	**8,172**	**862**	**237**	**20,084**

(all amounts are shown in HRK millions)

11. Loans and advances to customers (continued)

a) Movements in exposure and impairment allowance for loans to customers (including finance lease receivables) (continued):

Group 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Allowance for expected credit losses at 1 January	**88**	**305**	**617**	**153**	**1,163**
Derecognition (not including write-offs)	(12)	(48)	(84)	(16)	(160)
Transfer to Stage 1	105	(90)	(15)	-	-
Transfer to Stage 2	(21)	50	(29)	-	-
Transfer to Stage 3	(1)	(30)	31	-	-
POCI	-	(1)	(1)	2	-
Increase/release of provisions	(92)	53	148	-	109
Write-offs	-	(1)	(89)	(8)	(98)
Effects of exchange differences	-	-	(1)	-	(1)
At 31 December	**67**	**238**	**577**	**131**	**1,013**

Bank 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Allowance for expected credit losses at 1 January	**84**	**300**	**587**	**152**	**1,123**
Derecognition (not including write-offs)	(11)	(48)	(79)	(16)	(154)
Transfer to Stage 1	103	(89)	(14)	-	-
Transfer to Stage 2	(21)	49	(28)	-	-
Transfer to Stage 3	(1)	(30)	31	-	-
POCI	-	(1)	(1)	2	-
Increase/release of provisions	(89)	55	137	-	103
Write-offs	-	(1)	(87)	(8)	(96)
Effects of exchange differences	-	-	-	-	-
At 31 December	**65**	**235**	**546**	**130**	**976**

Group 2020.	Stage 1	Stage 2	Stage 3	POCI	Ukupno
Allowance for expected credit losses at 1 January	**100**	**194**	**655**	**142**	**1,091**
Derecognition (not including write-offs)	(26)	(13)	(108)	(14)	(161)
Transfer to Stage 1	16	(7)	(9)	-	-
Transfer to Stage 2	(24)	58	(34)	-	-
Transfer to Stage 3	(1)	(14)	15	-	-
POCI	-	-	(1)	1	-
Increase/release of provisions	23	89	189	37	338
Write-offs	-	(2)	(91)	(13)	(106)
Effects of exchange differences	-	-	1	-	1
At 31 December	**88**	**305**	**617**	**153**	**1,163**

(all amounts are shown in HRK millions)

11. Loans and advances to customers (continued)

a) Movements in exposure and impairment allowance for loans to customers (including finance lease receivables)) (continued):

Bank 2020	Stage 1	Stage 2	Stage 3	POCI	Ukupno
Allowance for expected credit losses at 1 January	**91**	**193**	**633**	**141**	**1,058**
Derecognition (not including write-offs)	(26)	(13)	(105)	(14)	(158)
Transfer to Stage 1	15	(7)	(8)	-	-
Transfer to Stage 2	(22)	56	(34)	-	-
Transfer to Stage 3	(2)	(14)	16	-	-
POCI	-	-	(1)	1	-
Increase/release of provisios	28	86	177	37	328
Write-offs	-	(1)	(92)	(13)	(106)
Effects of exchange differences	-	-	1	-	1
At 31 December	**84**	**300**	**587**	**152**	**1,123**

In 2021, the Bank recorded release of provisions in the amount of HRK 19.6 million (PI and micro) and HRK 60.6 million in non-retail segment (release of the local Post Model Adjustment), based on the forward looking component, and HRK 11.7 million increase in provisions in retail segment in respect of methodological changes in the calculation of risk parameters, and all other movements in provisions were a result of ongoing business operations including regular annual reviews of macroeconomic expectations, risk parameters, repayment obligations and revenues from portfolio sales.

In the year 2021, the Bank realized profit of HRK 29.6 million (total received HRK 32 .2 million, and of this, HRK 2.6 million refers to payments of original borrowers, which the bank will transfer to the buyer) from selling a part on the non-performing on-balance and off-balance portfolio (Note 36).

Gross value of the sold placements was HRK 111.4 million (loans to customer and other receivables HRK 95.4 million and off-balance receivables of HRK 16.0 million). Loans to private individuals were HRK 96.2 million (on-balance receivables HRK 84.5 million and off-balance receivables HRK 11.7 million, and loans to other customers HRK 15.2 million (HRK 10.9 million on-balance and HRK 4.3 million off-balance receivables). Net value of the sold on-balance placements of private individuals was HRK 4.2 million and placements of other customers HRK 0.5 million.

In the year 2020, the Bank realized profit of HRK 24 million (total received HRK 26 million, and of this, HRK 2 million refers to payments of original borrowers, which the bank will transfer to the buyer) from selling a part on the non-performing on-balance and off-balance portfolio. Gross value of the sold placements was HRK 161,7 million (loans to customer and other receivables HRK 97 million and off-balance receivables of HRK 64.7 million). Loans to private individuals were HRK 110.7 million (on-balance receivables HRK 78.2 million and off-balance receivables HRK 32.5 million, and loans to other customers HRK 51.0 million (HRK 18.8 million on-balance and HRK 32.2 million off-balance receivables). Net value of the sold on-balance placements of private individuals was HRK 2.8 million and placements of other customers HRK 0.4 mill

(all amounts are shown in HRK millions)

11. Loans and advances to customers (continued)

The table below presents the market value of collaterals for loans to customers. Gross exposure and impairment losses shown in the table below relate to secured exposures to customers, and collateral is presented at market value.

	Group 2021			Bank 2021		
	Total exposure	**Impairment allowance**	**Collateral**	**Total exposure**	**Impairment allowance**	**Collateral**
Balance exposure for loans to customers						
Stage 1	12,109	21	12,988	11,071	209	7,899
Stage 2	2,519	185	4,204	2,296	182	3,899
Stage 3	631	362	906	570	336	844
	15,259	**568**	**18,098**	**13,937**	**537**	**16,383**

	Group 2020			Bank 2020		
	Total exposure	**Impairment allowance**	**Collateral**	**Total exposure**	**Impairment allowance**	**Collateral**
Balance exposure for loans to customers						
Stage 1	6,049	50	9,917	8,546	209	8,435
Stage 2	3,892	168	6,374	3,521	161	5,977
Stage 3	644	387	1,018	555	362	902
	10,585	**605**	**17,309**	**9,101**	**571**	**15,314**

The table below show the market value of collateral at 31 December 2021 which is used to secure loans and advances to customers. The market value is presented without any impairment. The market value is calculated in accordance with the directives applicable in the bank for value appraisal, revaluation etc.

Collateral	**Group 2021**	**Bank 2021**	**Group 2020**	**Bank 2021**
Commercial property	4,285	4,227	4,477	4,412
Cash deposits	200	198	219	218
Securities	4	4	3	3
Guarantess and similar instruments	1,475	1,470	1,386	1,385
Funds	10	10	7	7
Movable property	1,027	268	1,118	351
Other collateral types	29	29	45	45
Residential property	11,068	10,177	10,055	8,893
	18,098	**16,382**	**17,309**	**15,314**

(all amounts are shown in HRK millions)

11. Loans and advances to customers (continued)

b) Finance lease receivables

The Group as lessor under finance lease provides lease mainly of plant and equipment. The leases typically run for a period of one to seven years, ownership of the leased asset being transferred at the end of the lease term. Interest accrues over the period of the lease based on market related interest rates. The receivables are secured by the underlying assets. Loans and advances to customers include the following finance lease receivables:

	Group 2021	**Group 2020**
Gross investment in finance leases	934	1,003
Deferred fee income	(3)	(2)
Unearned finance income	(51)	(55)
Net investment in finance leases	**880**	**946**
Impairment losses	(23)	(23)
Net investment in finance leases	**857**	**923**

This disclosure is illustrative since there are no irrevocable leases.

	Group 2021	**Group 2020**
Up to 1 year	339	360
1 – 2 years	257	266
2 – 3 years	177	193
3 – 4 years	97	112
4 – 5 years	44	47
More than 5 years	19	25
Undiscounted lease payments	**934**	**1,003**
Less: unearned finance income	(54)	(57)
Present value of lease payments receivable	880	946
Impairment loss allowance	(23)	(23)
Net investment in the lease	**857**	**923**
Undiscounted lease payments analysed as:	934	1,003
Recoverable after 12 months	594	643
Reverable within 12 months	340	360
Net investment in the lease analysed as:	857	923
Recoverable after 12 months	543	589
Recoverable within 12 months	314	334

(all amounts are shown in HRK millions)

12. Loans and advances to customers (continued)

b) Finance lease receivables (continued)

Effects from lease seales	Group 2021	Group 2020
Selling profit/loss from finance lease	-	1

12. a) Investment securities measured at amortized cost

	Group 2021	Group 2020	Bank 2021	Bank 2020
Investment securities measured at amortised cost				
Debt securities:				
- Domestic government bonds, listed	1,639	1,074	1,242	762
- Corporate bonds, listed	84	13	84	13
- Foreign banks bonds, listed	215	216	215	216
- Foreign government bonds, listed	600	435	600	435
- Foreign corporate bonds	39	-	39	-
	2,577	**1,738**	**2,180**	**1,426**
Impairment allowance	-	(8)	-	(8)
Total investment securities measured at amortised cost	**2,577**	**1,730**	**2,180**	**1,418**

Stage 1	Group 2021	Group 2020	Bank 2021	Bank 2020
At 1 January	**8**	**5**	**8**	**4**
Net charge to profit or loss (Note 36)	(8)	3	(8)	4
At 31 December	**-**	**8**	**-**	**8**

Foreign government bonds relate to securities isused bv the Republic of Lithuania, the Republic of Poland, the United States of America, the Republic of Slovenia and the Republic of Bulgaria .

(all amounts are shown in HRK millions)

12. b) Investment securities at fair value through comprehensive income

	Group 2021	Group 2020	Bank 2021	Bank 2020
Debt securities:				
- Domestic government bonds, listed	2,671	2,532	2,496	2,311
- Bonds issued by banks, listed	675	864	675	864
- Bonds issued by companies, listed	53	51	53	51
- Foreign government bonds, listed	663	838	663	838
- Treasury bills issued by the Ministry of Finance	527	435	527	384
- Treasury bills issued by foreign countries	-	61	-	61
	4,589	4,781	4,414	4,509
Equity securities:				
- not listed	8	3	8	3
- listed	3	7	3	7
	11	10	11	10
Total investment securities at fair value through other comprehensive income	**4,600**	**4,791**	**4,425**	**4,519**

Stage 1	**Group 2021**	**Group 2020**	**Bank 2021**	**Bank 2020**
At 1 January	**15**	**42**	**14**	**40**
Net release to profit or loss (Note 36)	(15)	(27)	(14)	(26)
At 31 December	**-**	**15**	**-**	**14**

Government bonds issued by foreign governments consist of financial instruments issued by the, the Republic of Poland, , the Republic of Slovenia, the Republic of Ireland and the Slovak Republic

(all amounts are shown in HRK millions)

13. Investments in subsidiaries

The Bank had the following investments in subsidiaries, all incorporated in Croatia, as at 31 December 2021 and 31 December 2020:

	Nature of business	Ownership 2021 %	Ownership 2020 %	Acquisition cost 2021	Impairment allowance 2021	Investments in subsidiaries 2021	Acquisition cost 2020	Impairment allowance 2020	Investments in subsidiaries 2020
Investment in subsidiaries									
Direct holding									
Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	Pension fund management	100	100	144	-	144	144	-	144
Raiffeisen stambena štedionica d.d.	Saving bank	100	100	56	-	56	56	-	56
Raiffeisen Consulting d.o.o.	Financial and consulting services	100	100	105	(11)	94	105	(9)	96
Raiffeisen Leasing d.o.o.	Leasing	100	100	57	-	57	57	-	57
Raiffeisen mirovinsko osiguravajuće društvo d.d.	Pension insurance	100	100	23	-	23	23	-	23
Raiffeisen Invest d.o.o.	Investment fund management	100	100	-	-	-	8	-	8
Indirect holding									
Raiffeisen Bonus d.o.o.	Insurance and re-insurance intermediary	100	100	-	-	-	-	-	-
Ukupno				**385**	**(11)**	**374**	**393**	**(9)**	**384**

13. Investments in subsidiaries (continued)

Prodaja Raiffeisen Invest d.o.o.

The Bank signed an Agreement on sale of a 100% stake in company Raiffeisen Invest, based on which the investment in the subsidiary Raiffeisen Invest d.o.o. as at 31.12.2021 in the Statement of Financial Position of the Bank was stated in position of Assets held for sale (Note 19). In the Statement of Financial Position of the Group, assets and liabilities of Raiffeisen Invest d.o.o., are stated in the positions Assets from discontinued operations and Liabilities from discontinued operations (Note 42). The sale was realized in January 2022.

Planned merger of Raiffeisen stambena štedionica d.d.

In 2020 the Bank expressed its intent to acquire the building society, Raiffeisen stambena štedionica, and notified the regulator accordingly. According to the time schedule, the merger is planned by the end of April 2022.

Bonus administrator d.o.o. u likvidaciji

On the basis of the business decision to dissolve the Company, on 08.03.2021 liquidation proceedings were initiated at the Commercial Court in Zagreb. The total capital of the company amounts to HRK 200,000, of which Raiffeisen Leasing d.o.o. holds 50% and the other 50% are held by Raiffeisen Consulting d.o.o.

(all amounts are shown in HRK millions)

14. a) Property, plant and equipment

Group

2021	**Land**	**Buildings**	**Equipment**	**Office furniture**	**Assets under construction**	**Total**
Gross carrying amount						
At 1 January 2021	53	866	435	61	21	1,436
Reclassification in Property, plant and equipment under operating lease (Note 14c)	-	(19)	-	-	-	(19)
Reclassification in Non-current assets held for sale	-	(92)	-	-	-	(92)
Additions	-	-	-	-	43	43
Disposals	-	(32)	(63)	(10)	-	(105)
Transfer into use	-	5	46	3	(54)	-
At 31 December 2021	**53**	**728**	**418**	**54**	**10**	**1,263**
Accumulated depreciation and impairment allowance						
At 1 January 2021	-	295	296	54	-	645
Charge for the year (Note 33)	-	15	32	1	-	48
Disposals and transfer	-	(22)	(59)	(10)	-	(91)
Reclassification in Non-current assets held for sale	-	(42)	-42 -	-	-	(42)
At 31 December 2021	**-**	**246**	**269**	**45**	**-**	**560**
Carrying amount						
At 1 January 2021	**53**	**571**	**139**	**7**	**21**	**791**
At 31 December 2021	**53**	**482**	**149**	**9**	**10**	**703**

There were no capitalized costs related to the acquisition of property, plant and equipment during the previous and current year.

A building owned by company Raiffeisen Consulting d.o.o. with the carrying amount of approximately HRK 195 million (2020: HRK 200 million) was pledged to the Bank as security for the approved loan. Management believes that fair value is close to its carrying amount.

Carrying value of land stated under the land and buildings, not subject to amortisation amounted to HRK 53 million (2020: HRK 53 million).

(all amounts are shown in HRK millions)

14. a) Property, plant and equipment (continued)

Group

2020	**Land**	**Buildings**	**Equipment**	**Office furniture**	**Assets under constructio n**	**Total**
Gross carrying amount						
At 1 January 2020	53	860	402	68	14	1,397
Additions	-	-	-	-	66	66
Disposals	-	-	(17)	(10)	-	(27)
Transfer into use	-	6	50	3	(59)	-
At 31 December 2020	**53**	**866**	**435**	**61**	**21**	**1,436**
Accumulated depreciation and impairment allowance						
At 1 January 2020	-	279	285	63	-	627
Charge for the year (Note 35a)	-	16	28	1	-	45
Disposals and transfer	-	-	(17)	(10)	-	(27)
At 31 December 2020	**-**	**295**	**296**	**54**	**-**	**645**
Carrying amount						
At 1 January 2020	**53**	**581**	**117**	**5**	**14**	**770**
At 31 December 2020	**53**	**571**	**139**	**7**	**21**	**791**

(all amounts are shown in HRK millions)

14. a) Property, plant andequipment (continued)

Bank

2021	**Land**	**Buildings**	**Equipment**	**Office furniture**	**Assets under construction**	**Total**
Gross carrying amount						
At 1 January 2021	28	498	411	61	20	1,018
Reclassification in Non-current assets held for sale	-	(92)	-	-	-	(92)
Additions	-	-	-	-	42	42
Disposals	-	-	(60)	(10)	-	(70)
Transfer into use	-	5	43	3	(51)	-
At 31 December 2021	**28**	**411**	**394**	**54**	**11**	**898**
Accumulated depreciation						
At 1 January 2021	-	152	285	54	-	491
Reclassification in Non-current assets held for sale	-	(42)	-	-	-	(42)
Charge for the year (Note 35a)	-	10	29	1	-	40
Disposals	-	-	(57)	(10)	-	(67)
At 31 December 2021	**-**	**120**	**257**	**45**	**-**	**422**
Carrying amount						
At 1 January 2021	**28**	**346**	**126**	**7**	**20**	**527**
At 31 December 2021	**28**	**291**	**137**	**9**	**11**	**476**

Assets under construction relates to equipment at cost of HRK 11 million (2020: HRK 20 million, and additionally HRK 1 million relate to office furniture).

There were no capitalised borrowing costs of acquisition of property, plant and equipment during the year (2020: nil)

Carrying value of land stated under the buildings item, not subject to amortisation amounted to HRK 28 million (2020: HRK 28 million).

(all amounts are shown in HRK millions)

14. a) Property, plant andequipment (continued)

Bank

2020	**Land**	**Buildings**	**Equipment**	**Office furniture**	**Assets under construction**	**Total**
Gross carrying amount						
At 1 January 2020	28	492	382	68	13	983
Additions	-	-	-	-	62	62
Disposals	-	-	(17)	(10)	-	(27)
Transfer into use	-	6	46	3	(55)	-
At 31 December 2020	**28**	**498**	**411**	**61**	**20**	**1,018**
Accumulated depreciation and impairment allowance						
At 1 January 2020	-	142	277	63	-	482
Charge for the year (Note 36)	-	10	25	1	-	36
Disposals	-	-	(17)	(10)	-	(27)
At 31 December 2020	**-**	**152**	**285**	**54**	**-**	**491**
Carrying amount						
At 1 January 2020	**28**	**350**	**105**	**5**	**13**	**501**
At 31 December 2020	**28**	**346**	**126**	**7**	**20**	**527**

(all amounts are shown in HRK millions)

14. b) Investment property

Group

	Investment property
Gross carrying amount	
At 1 January 2020	68
Additions	-
Disposals	(6)
At 31 December 2020	**62**
At 1 January 2021	**62**
Adjustments from previous years	**2**
At 1 January 2021 corrected	**64**
Transfer to Non-current assets held for sale	(26)
Additions	101
Disposals	(1)
At 31 December 2021	**138**
Accumulated depreciation	**-**
At 1 January 2020	**4**
Charge for the year(Note 35a)	1
Disposals	-
At 31 December 2020	**5**
At 1 January 2021	**5**
Adjustments from previous years	(3)
Charge for the year (Note 35a)	1
Disposals	(1)
At 31 December 2021	**2**
Carrying amount	
At 31 December 2020	**57**
At 31 December 2021	**136**

14. b) Investment property (continued)

Raiffeisen Pension Company d.d. bought 4 office buildings in October 2021 with the intention of renting business premises and rental income. The Company valued the purchased property at initial recognition in accordance with the provisions of IAS 40 and the Ordinance on the Valuation of Pension Insurance Company Assets (OG 103/14 and 2/20), and stated the cost of acquisition in amount of HRK 101 million in the assets covering technical provisions of the mandatory pension insurance.

The acquisition cost is based on an estimate made by Raiffeisen consulting d.o.o., on 21 July 2021, in accordance with The Real Estate Valuation Act (OG 78/15) and the Ordinance on Real Estate Valuation (OG 105/15). For abovementioned assessment study, the revenue method was used.

The Company values real estate in assets covering technical provisions of mandatory pension insurance at fair value model which amounted to HRK 101 million on 31 December 2021.

The current value of the remaining amount stated in the note in the amount of HRK 35 million, refers to the property being valued by cost method. Management believes that the fair value of the property is close to its carrying amount.

(all amounts are shown in HRK millions)

14. c) Property, plant and equipment under operating lease

Group

2021	**Buildings**	**Equipment**	**Motor vehicles and vessels**	**Assets under construction**	**Total**
Gross carrying amount					
At 1 January 2021	15	12	152	-	178
Reclassification from Property, plant and equipment	19	-	-	-	19
At 1 January 2021	**34**	**12**	**152**	**-**	**197**
Additions	-	-	-	37	37
Transfer to Non-current assets held for sale	-	-	(3)	-	(3)
Disposals	-	(5)	(42)	-	(47)
Transfer into use	-	4	34	(37)	1
At 31 December 2021	**34**	**11**	**140**	**-**	**185**
Accumulated depreciation					
At 1 January 2021	6	6	48	-	60
Charge for the year (Note 35a)	1	-	23	-	24
Disposals	-	(2)	(26)	-	(28)
At 31 December 2021	**7**	**4**	**45**	**-**	**56**
Knjigovodstvena vrijednost					
At 1 January 2021	**9**	**6**	**104**	**-**	**119**
At 31 December 2021	**27**	**7**	**95**	**-**	**129**

(all amounts are shown in HRK millions)

14. c) Property, plant and equipment under operating lease (continued)

Group

2020	**Buildings**	**Equipment**	**Motor vehicles and vessels**	**Assets under construction**	**Total**
Gross carrying amount					
At 1 January 2020	11	13	200	-	224
Additions	-	-	-	44	44
Disposals	-	(4)	(85)	-	**(89)**
Transfer into use	4	3	37	(44)	-
At 31 December 2020	**15**	**12**	**152**	**-**	**179**
Accumulated depreciation					
At 1 January 2020	6	6	61	-	73
Charge for the year (Note 35a)	1	-	31	-	32
Disposals	-	-	(45)	-	(45)
At 31 December 2020	**7**	**6**	**47**	**-**	**60**
Carrying amount					
At 1 January 2020	**5**	**7**	**139**	**-**	**151**
At 31 December 2020	**8**	**6**	**105**	**-**	**119**

(all amounts are shown in HRK millions)

15. Right of use assets

Group

	Buildings	**Equipment**	**Total**
Gross carrying amount			
At 1 January 2021	48	4	52
Consolidation adjustments	(4)	-	(4)
Additions	20	-	20
Disposals	(17)	(1)	(18)
At 31 December 2021	**47**	**3**	**50**
Accumulated depreciation			
At 1 January 2021	22	3	25
Charge for the year (Note 35a)	6	1	7
Disposals	(12)	(1)	(13)
At 31 December 2021	**16**	**3**	**19**
Carrying amount			
At 1 January 2021	**26**	**1**	**27**
At 31 December 2021	**31**	**-**	**31**

Group

	Buildings	**Equipment**	**Total**
Gross carrying amount			
At 1 January 2020	46	3	49
Additions	2	1	3
At 31 December 2020	**48**	**4**	**52**
Accumulated depreciation			
At 1 January 2020	10	2	12
Charge for the year (Note 36)	12	1	13
At 31 December 2020	**22**	**3**	**25**
Carrying amount			
At 1 January 2020	**36**	**1**	**37**
At 31 December 2020	**26**	**1**	**27**

15. Right of use assets (continued)

Bank

	Buildings	**Equipment**	**Total**
Gross carrying amount			
At 1 January 2021	193	11	204
Additions	12	1	13
Disposals	(27)	(5)	(32)
At 31 December 2021	**178**	**7**	**185**
Accumulated depreciation			
At 1 January 2021	47	5	52
Charge for the year (Note 35a)	21	2	23
Disposals	(12)	(3)	(15)
At 31 December 2021	**56**	**4**	**60**
Carrying amount			
At 1 January 2021	**146**	**6**	**152**
At 31 December 2021	**122**	**3**	**125**

Bank

2020	**Buildings HRK millions**	**Equipment HRK millions**	**Total HRK millions**
Gross carrying amount			
At 1 January 2020	198	10	208
Additions	2	1	3
Disposals	(7)	-	(7)
At 31 December 2020	**193**	**11**	**204**
Accumulated depreciation			
At 1 January 2020	23	3	26
Charge for the year (Note 33)	24	2	26
At 31 December 2020	**47**	**5**	**52**
Carrying amount			
At 1 January 2020	**175**	**7**	**182**
At 31 December 2020	**146**	**6**	**152**

15. a) Lease liabilities

	Group 2021 HRK millions	Group 2020 HRK millions	Bank 2021 HRK millions	Bank 2020 HRK millions
Short-term lease liabilities	19	2	18	2
Long-term lease liabilities	12	28	110	150
	31	**30**	**128**	**152**

An overview of lease liabilities by residual maturity is presented in Note 51 Risk Management *Maturity Analysis*.

Amounts recognised in Statement of comprehensive income

	Group 2021 HRK millions	Group 2020 HRK millions	Bank 2021 HRK millions	Bank 2020 HRK millions
Depreciation of right-of-use assets				
Buildings (Note 35 a)	7	13	21	24
Equipment (Note 35 a)	-	-	2	2
Interest payable (Note 30)	-	-	3	3
Cost of short-term leases (Note 35)	-	-	1	1
Cost of leases for which underlying asset is of low value	-	-	8	8

The amounts of costs for short-term leases and leases for which the underlying asset is of low value are not included in the lease liabilities under IFRS 16 (costs are reported in Note 35 Operating expenses).

(all amounts are shown in HRK millions)

16. Intangible assets

Group 2021	Goodwill	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount					
At 1 January 2021	27	204	836	34	1,101
Additions	-	-	-	113	113
Disposals	-	(1)	(15)	-	(16)
Transfer into use	-	11	111	(122)	-
At 31 December 2021	**27**	**214**	**932**	**25**	**1,198**
Accumulated amortisation					
At 1 January 2021	-	148	605	-	753
Charge for the year (Note 36)	-	11	45	-	56
Disposals	-	-	(12)	-	(12)
At 31 December 2021		**159**	**638**	**-**	**797**
Carrying amount					
At 1 January 2021	**27**	**56**	**231**	**34**	**348**
At 31 December 2021	**27**	**55**	**294**	**25**	**401**

Assets under construction mainly comprise software in the process of installation in the amount of HRK 30 million (2020: HRK 30 million).

The reported goodwill resulted from the acquisition of a 100% share in Raiffeisen Leasing d.o.o. in 2016. Annual testing has shown that there are no indicators of impairment of goodwill.

(all amounts are shown in HRK millions)

16. Intangible assets (continued)

Group 2020	Goodwill	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount					
At 1 January 2020	27	204	764	18	1,013
Additions	-			96	96
Disposals	-	(6)	(2)	-	(8)
Transfer into use	-	6	74	(80)	-
At 31 December 2020	**27**	**204**	**836**	**34**	**1,101**
Accumulated amortisation					
At 1 January 2020	-	142	568	-	710
Charge for the year (Note 36)	-	12	39	-	51
Disposals	-	(6)	(2)	-	(8)
At 31 December 2020		**148**	**605**	**-**	**753**
Carrying amount					
At 1 January 2020	**27**	**62**	**196**	**18**	**303**
At 31 December 2020	**27**	**56**	**231**	**34**	**348**

(all amounts are shown in HRK millions)

16.Intangible assets (continued)

Bank

2021	**Leasehold improvement**	**Software**	**Assets under construction**	**Total**
Gross carrying amount				
At 1 January 2021	201	786	32	1,019
Additions	-	-	111	111
Disposals		(15)	-	(15)
Transfer into use	10	108	(118)	-
At 31 December 2021	**211**	**879**	**25**	**1,115**
Accumulated amortisation				
At 1 January 2021	146	559		705
Charge for the year (Note 36)	11	43	-	54
Disposals		(12)	-	(12)
At 31 December 2021	**157**	**590**		**747**
Carrying amount				
At 1 January 2021	**55**	**227**	**32**	**314**
At 31 December 2021	**54**	**289**	**25**	**368**

Assets under construction mainly comprise software in the process of installation in the amount of HRK 19 million (2020: HRK 30 million).

(all amounts are shown in HRK millions)

16.Intangible assets (continued)

Bank

2020	**Leasehold improvement**	**Software**	**Assets under construction**	**Total**
Gross carrying amount				
At 1 January 2020	201	715	16	932
Additions	-	-	95	95
Disposals	(6)	(2)	-	(8)
Transfer into use	6	73	(79)	-
At 31 December 2020	**201**	**786**	**32**	**1,019**
Accumulated amortisation				
At 1 January 2020	140	524	-	664
Charge for the year (Note 36)	12	37	-	49
Disposals	(6)	(2)	-	(8)
At 31 December 2020	**146**	**559**	**-**	**705**
Carrying amount				
At 1 January 2020	**61**	**191**	**16**	**268**
At 31 December 2020	**55**	**227**	**32**	**314**

(all amounts are shown in HRK millions)

17. Deferred tax assets

Recognised deferred tax assets and liabilities

Movements in temporary differences and underlying positions for deferred tax assets and deferred tax liabilities are as follows:

Group	**Assets**		**Liabilities**		**Net income/(charge) to profit or loss**		**Net gain/(loss) in other comprehensive income**	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Property, plant, equipment and investment property	-	-	-	(1)	1	1	-	-
Deferred fee and commission expense	-	-	-	(1)	1	-	-	-
Deferred fee and commission income	9	9	-	-	-	-	-	-
Recognition of deferred tax assets at the level of the Group	2	2	-	-	-	-	-	-
Recognised tax loss	-	1	-	-	(1)	(53)	-	-
Unrealised gains on financial instruments at fair value through profit or loss	16	38	-	-	(22)	19	-	-
Other provisions	36	27	-	-	9	(3)	- -	-
Deferred tax assets/(liabilities)	**63**	**77**	**-**	**(2)**	**(12)**	**(36)**	-	**-**
Unrealised gains on financial instruments at fair value through other comprehensive income	(4)	(8)	-	-	-	-	5	(1)
Off set	-	(2)	-	2	-	-	-	-
Net deferred tax assets	**59**	**67**	**-**	**-**	**(12)**	**(36)**	**5**	**(1)**

The off-set item refers to the Group Raiffeisen Leasing component and the deferred loan consideration.

(all amounts are shown in HRK millions)

17. Deferred tax assets (continued)

Recognised deferred tax asset and liabilities (continued)

Movements in temporary differences and underlying positions for deferred tax assets and deferred tax liabilities are as follows:

Bank	**Assets**		**Liabilities**		**Net income/(charge) to profit or loss**		**Net gain/(loss) in other comprehensive income**	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Deferred fee and commission expense		-	-	-		-	-	-
Deferred fee and commission income	5	5	-	-	-	(2)	-	-
Unrealised gains on financial instruments at fair value through profit or loss	15	37	-	-	(22)	19	-	-
Impairment allowance of investments in subsidiaries	2	2	-	-	-	-	-	-
Recognised tax losses	-	-	-	-	-	(54)	-	-
Other provisions	31	21	-	-	10	(3)	-	-
Deferred tax assets/(liabilities)	**53**	**65**	**-**	**-**	**(12)**	**(40)**	-	-
Unrealised gains on financial instruments at fair value through other comprehensive income	(4)	(9)	-	-	-	-	(5)	(1)
Net deferred tax assets	**49**	**56**	**-**	**-**	**(12)**	**(40)**	**5**	**(1)**

(all amounts are shown in HRK millions)

18. Other assets

	Group 2021	Group 2020	Bank 2021	Bank 2020
Inventory and foreclosed assets	37	53	33	42
Receivables from credit and debit cards	36	20	36	20
Advances	34	42	26	34
Accrued fees and commission	32	28	20	14
Accrued costs	22	21	12	11
Receivables from repurchase of domestic and foreign currency cash	2	7	2	7
Other	22	20	12	5
	184	**191**	**141**	**133**
Impairment allowance	(19)	(24)	(18)	(20)
	165	**167**	**123**	**113**

Major part of amounts shown in position Other refer to pre-tax receivables, litigation receivables and receivables from employees.

Movement in impairment allowance

Group	**Stage 3**	**Stage 1**	**Stage 2**	**2021 Total**	**Stage 3**	**Stage 1**	**Stage 2**	**2020 Total**
At 1 January	**20**	**-**	**4**	**24**	**23**	**-**	**1**	**24**
Provisions created during the year	2	-	-	2	8	-	3	11
Provisions released during the year	-	-	-	-	-	-	-	-
Net charge/(release) recognised in profit or loss (Note 36)	2	-	-	2	8	-	3	11
Write offs	(7)	-	-	(7)	(11)	-	-	(11)
At 31 December	**15**	**-**	**4**	**19**	**20**	**-**	**4**	**24**

(all amounts are shown in HRK millions)

18. Other assets (continued)

Bank	Stage 3	Stage 1	Stage 2	2021 Total	Stage 3	Stage	Stage 2	2020 Total
At 1 January	**16**	**-**	**4**	**20**	**18**	**-**	**1**	**19**
Provisions created during the year	2	-	-	2	7	-	3	10
Provisions released during the year	-	-	-	-	-	-	-	-
Net charge/(release) recognised in profit or loss (Note 36)	2	-	-	2	7	-	3	10
Write offs	(4)	-	-	(4)	(9)	-	-	(9)
At 31 December	**14**	**-**	**4**	**18**	**16**	**-**	**4**	**20**

19. Non-current assets held for sale

	Group 2021	Group 2020	Bank 2021	Bank 2020
Investment in Raiffeisen Invest d.o.o.	-	-	8	-
Property being sold	50	-	50	-
	50	**-**	**58**	**-**

Pursuant to the Agreement on the sale of a 100% stake in Raiffeisen Invest d.o.o., on 31.12.2021, the conditions for reclassification from Investment in subsidiaries (Note 13) to the position of Assets held for sale were realized. The sale was realized in January 2022.
The property being sold refers to a property owned by the Bank that the Bank used for operational purposes. In 2021, the conditions for reclassification from Property, Plant and Equipment (Note 14a) to Assets held for sale were met.

20. Financial liabilities at fair value through profit or loss

	Group 2021	Group 2020	Bank 2021	Bank 2020
Trading instruments				
Negative fair value of OTC derivative instruments	60	177	58	176
Negative fair value of OTC spot transactions	-	1	-	1
- Interest rate swap – hedge of the individual items	-	2	-	2
- Interest rate swap – hedge accounting	10	20	10	20
	70	**200**	**69**	**199**

(all amounts are shown in HRK millions)

20. a) Derivative instruments and foreign currency trading

The Group and the Bank had the following derivative contracts accounted for as trading instruments open at year-end.

Group	**Notional amount**		**Fair value**	
2021	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Trading derivative instruments (Note 9)				
- FX forward contracts – OTC	6,035	4,216	66	39
- Cross currency swap contracts – OTC	-	-	-	-
- Interest rate swap contracts – OTC	242	667	4	21
	6,277	**4,883**	**70**	**60**
Unsettled trading with currencies – OTC	**554**	**377**	**-**	**-**
Hedging derivative instruments				
- Interest rate swap contracts - OTC				
Hedge of individual items	244		5	
Portfolio hedge		112		10
	244	**112**	**5**	**10**

Group	**Notional amount**		**Fair value**	
2020	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Trading derivative instruments				
- FX forward contracts – OTC	6,377	6,294	131	136
- Cross-currency swap contracts – OTC	-	-	-	-
- Interest rate swap contracts - OTC	373	568	10	39
	6,750	**6,862**	**141**	**177**
Unsettled trading with currencies– OTC	**500**	**724**	**-**	**1**
Derivative instruments for hedge accounting				
- Interest rate swap contracts - OTC				
Hedge of individual items	-	666	-	2
Portfolio hedge	-	201	-	20
	-	**867**	**-**	**22**

Derivative instruments for hedge accounting are used for management of the interest rate risk that results from the loans with fixed interest rates. Hedge of individual items relate to loans to corporate customers, while portfolio hedge relates to the loans to individuals.

(all amounts are shown in HRK millions)

20. a) Derivative instruments and foreign currency trading (continued)

Bank	**Notional amount**		**Fair value**	
2021	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Trading derivative instruments				
- FX forward contracts – OTC	6,214	4,554	66	40
- Cross currency swap contracts – OTC	-	-	-	-
- Interest rate swap contracts - OTC	392	462	13	19
	6,606	**5,016**	**79**	**59**
Unsettled trading with currencies – OTC	**554**	**377**	**-**	**1**
Hedging derivative instruments				
- Interest rate swap contracts - OTC				
Hedge of individual items	244		5	
Portfolio hedge	-	112	-	10
	244	**112**	**5**	**10**

Bank	**Notional amount**		**Fair value**	
2020	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Trading derivative instruments				
- FX forward contracts – OTC	6,396	6,399	132	135
- Cross currency swap contracts – OTC	-	-	-	-
- Interest rate swap contracts- OTC	448	568	25	41
	6,844	**6,967**	**157**	**176**
Unsettled trading with currencies – OTC	**500**	**724**	**-**	**1**
Derivative instruments for hedge accounting				
- Interest rate swap contracts - OTC				
Hedge of individual items	-	666	-	2
Portfolio hedge	-	201	-	20
	-	**867**	**-**	**22**

(all amounts are shown in HRK millions)

20. a) Derivative instruments and foreign currency trading (continued)

Fair value hedge accounting – interest rate risk

	Average fixed interest rate		Notional amount		Fair value Assets (Liabilities)	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
	%	**%**				
Hedged item – loan to customers (Note 11) – corporate – hedge of individual items						
With maturity up to 5 years	2.9	0.2	63	63	-	
With the maturity over 5 years	-	2.9	-	63	-	1
Hedging instrument - interest rate swap, maturity from 1 to 5 years, hedge of individual items						
With maturity up to 5 years (Note 20)	(0.17)	(0.44)	63	603	-	(1)
With the maturity over 5 years (Note 20)	(0.17)	(0.17)	62	63	-	(1)
Hedged item – investment securities – hedge of individual items (Note 12a)						
With the maturity over 5 years	1.20		180		4	-
Hedging instrument – interest rate swap – hedge of individual items (Note 9a) With maturity over 5 years	0.09		180		5	-
Hedged item – loan to customers (Note 11) – individuals – portfolio hedge						
With maturity up to 5 years	0.93	0.66	21	89	1	
With the maturity over 5 years	1.25	1.19	91	112	9	
Hedging instrument - interest rate swap, portfolio hedge						
With maturity up to 5 years (Note 20)	0.93	0.66	21	89	1	(4)
With the maturity over 5 years (Note 20)	1.25	1.19	91	112	9	(16)

The effectiveness ratio of hedge of individual items for 2021 was 100.04% (2020: 116.35%). The effectiveness ratio of portfolio hedge for 2021 was 107.95% (2020: 105.61%).

Future cash flows in this part refer to hedging instruments. The bank uses interest rate swaps denominated in EUR, which are valued by the method of discounted future cash flows based on the EUR vs 3M interest rate. When determining the amounts of interest rate swaps for hedging loans at a fixed interest rate, the trade life cycle of these swaps is defined by maturity of the hedged loans, whereas their volume is defined by total amount of loans of a particular maturity adjusted for the estimated lifetime PD and prepayment rates of such loans.

20. a) Derivative instruments and foreign currency trading (continued)

Fair value hedge accounting – interest rate risk (continued)

2021 Bank/Group **Line in the statement of financial position that include hedging instrument**	**Change of fair value used for calculation of hedge effectiveness**	**Effect of ineffective part of hedge recognised in profit or loss**	**Line in the income statement that include effect of ineffective part of hedge**
Financial liabilities at fair value through profit or loss – hedge of individual items	5	-	Gains less losses from trading financial instruments
Financial liabilities at fair value through profit or loss – portfolio hedge	(9)	-	Gains less losses from trading financial instruments

Accumulated amount of fair value hedge adjustment On the hedged item included in the carrying amount of the hedged item **Assets / (Liabilities)**	**Line in the statement of financial position that include hedged item**	**Change of fair value used for calculation of hedge ineffectiveness**	**Accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses**
-	Loan to customers – corporate – hedge of individual items	1	-
11	Loan to customers – individuals – portfolio hedge	(1)	-
(4)	Investment securities measured at amortised cost	-	

2020 Bank/Group **Line in the statement of financial position that include hedging instrument**	**Change of fair value used for calculation of hedge effectiveness**	**Effect of ineffective part of hedge recognised in profit or loss**	**Line in the income statement that include effect of ineffective part of hedge**
Financial liabilities at fair value through profit or loss – hedge of individual items	2	(1)	Gains less losses from trading financial instruments
Financial liabilities at fair value through profit or loss – portfolio hedge	19	-	Gains less losses from trading financial instruments

20. a) Derivative instruments and foreign currency trading (continued)

Fair value hedge accounting – interest rate risk (continued)

Accumulated amount of fair value hedge adjustment On the hedged item included in the carrying amount of the hedged item Assets / (Liabilities)	Line in the statement of financial position that include hedged item	Change of fair value used for calculation of hedge ineffectiveness	adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses
2	Loan to customers – corporate – hedge of individual items	(1)	-
19	Loan to customers – individuals – portfolio hedge	-	-

(all amounts are shown in HRK millions)

21. Deposits from banks

	Group 2021	Group 2020	Bank 2021	Bank 2020
Current accounts and demand deposits				
- from parent bank	9	96	9	96
- from RBI group banks other than parent bank	9	8	263	164
- from other banks	247	163	248	164
Time deposits				
- from parent bank	-	-		-
- from other banks	21	-	21	-
	286	**267**	**541**	**424**

22. Deposits from companies and other similar entities

	Group 2021	Group 2020	Bank 2021	Bank 2020
Current accounts and demand deposits	14,801	12,075	15,024	12,268
Time deposits	417	654	426	699
	15,218	**12,729**	**15,450**	**12,967**

23. Deposits from individuals

	Group 2021	Group 2020	Bank 2021	Bank 2020
Current accounts and demand deposits	13,557	10,899	13,557	10,899
Time deposits	4,766	5,511	3,814	4,462
	18,323	**16,410**	**17,371**	**15,361**

(all amounts are shown in HRK millions)

24. Borrowings

	Group 2021	Group 2020	Bank 2021	Bank 2020
From ultimate parent bank	326	1,132	5	753
From other banks	385	1,250	71	867
From HBOR	374	452	372	446
	1,085	**2,834**	**448**	**2,066**

Movements of outstanding borrowings

	Group 2021	Group 2020	Bank 2021	Bank 2020
At 1 January	2,834	1,995	2,066	1,058
New borrowings	10,520	8,106	10,332	7,863
Repayment of borrowings	(12,266)	(7,291)	(11,949)	(6,869)
Foreign exchange differences	(2)	24	(1)	14
At 31 December	**1,085**	**2,834**	**448**	**2,066**

Borrowings from parent bank and other banks in 2020 also contain repurchase agreements (Note 47).

Other borrowings relate on long term loans from development and other banks with original maturity between 2 and 10 years and average interest rate of 0.79% in 2021 and 0.76% in 2020.

25. Isued debt securities

	Group 2021	Group 2020	Bank 2021	Bank 2020
Issued debt instrument	978	-	978	-
	978	**-**	**978**	**-**

On 04 November 2021, the Bank issued EUR 130 million (HRK 977 million) of MREL bond with 0.334% coupon and maturity date 04 November 2023.

(all amounts are shown in HRK millions)

26. Provisions for liabilities and charges

Group	**Off balance sheet exposure Stage 1**	**Off balance sheet exposure Stage 2**	**Off balance sheet exposure Stage 3**	**Provision for pension insurance**	**Provisions for unused holiday**	**Provision for court cases**	**Provisions for yubilee awards**	**Total**
At 1 January 2021	**41**	**45**	**36**	**9**	**10**	**305**	**5**	**451**
			-					
Provision released during the year	(23)	(20)	-	(4)	(1)	-	-	(48)
Provision created during the year	-	-	3	-	-	160		163
(Credit)/charge recognised in profit or loss	*(23)*	*(20)*	3	*(4)*	*(1)*	*160*	-	115
At 31 December 2021	**18**	**25**	**39**	**5**	**9**	**465**	**5**	**566**

Group	**Off balance sheet exposure Stage 1**	**Off balance sheet exposure Stage 2**	**Off balance sheet exposure Stage 3**	**Provision for pension insurance**	**Provisions for unused holiday**	**Provision for court cases**	**Provisions for yubilee awards**	**Total**
At 1 January 2020	**64**	**8**	**29**	**4**	**9**	**200**	-	**314**
Provision released during the year	(23)	-	-	-	-	-	-	(23)
Provision created during the year	-	37	7	5	1	105	5	162
(Credit)/charge recognised in profit or loss	*(23)*	*37*	7	*5*	*1*	*105*	5	137
At 31 December 2020	**41**	**45**	**36**	**9**	**10**	**305**	**5**	**451**

Provisions for pension insurance and jubilee awards are calculated by an independent actuary in accordance with IAS 19 Employee Benefits.

(all amounts are shown in HRK millions)

26. Provisions for liabilities and charges (continued)

Bank	**Off balance sheet exposure Stage 1**	**Off balance sheet exposure Stage 2**	**Off balance sheet exposure Stage 3**	**Provision for pension insurance**	**Provisions for unused holiday**	**Provision for court cases**	**Provisons for jubilee awards**	**Total**
At 1 January 2021	**41**	**45**	**36**	**7**	**8**	**289**	**5**	**431**
Provision released during the year	(23)	(20)	-	(4)	-	-	-	(47)
Provision created during the year	-	-	3	-	-	160	-	163
(Credit)/charge recognised in profit or loss	*(23)*	*(20)*	*3*	*(4)*	*-*	*160*	*-*	*116*
At 31 December 2021	**18**	**25**	**39**	**3**	**8**	**449**	**5**	**547**

Bank	**Off balance sheet exposure Stage 1**	**Off balance sheet exposure Stage 2**	**Off balance sheet exposure Stage 3**	**Provision for pension insurance**	**Provisions for unused holiday**	**Provision for court cases**	**Provisons for jubilee awards**	**Total**
At 1 January 2020	**64**	**8**	**29**	**4**	**7**	**184**	**-**	**296**
Provision released during the year	(23)	-	-	-	-	-	-	(23)
Provision created during the year	-	37	7	3	1	105	5	158
(Credit)/charge recognised in profit or loss	*(23)*	*37*	*7*	*3*	*1*	*105*	*5*	*135*
At 31 December 2020	**41**	**45**	**36**	**7**	**8**	**289**	**5**	**431**

26. Provisions for liabilities and charges (continued)

At 31 December 2021 the Bank formed HRK 449 million of provisions for all court cases (2020: HRK 289 million). The Group formed provisions for litigations in the amount of HRK 465 million (2020: HRK 305 million)

In respect of CHF related loans, individual lawsuits instituted by consumers against the Bank are based on the judgments of the High Commercial Court in Zagreb, in the collective proceedings of the Consumer Association against eight banks, including the Bank. In June 2014, the High Commercial Court ruled in favour of the plaintiffs against seven banks, including the Bank, for unilaterally changing interest rates, and in favour of banks for contracting a foreign-currency index in CHF in consumer loan contracts.

In the renewed collective action of the Association of consumers „Potrošač“ against eight banks, in June 2018, the High Commercial Court ruled in favour of the plaintiffs against seven banks for contracting a foreign currency index in CHF in consumer loans and against one bank for unilaterally changing interest rates (a bank against which the same procedure was not adjudicated in June 2014). In September 2019, the Supreme Court upheld the High Commercial Court decision of June 2018, declaring null and void the foreign currency index in CHF in consumer loan agreements and in February 2021 the Constitutional Court upheld the Supreme Court's decision, ending collective proceedings before Croatian courts. Based on judgments in collective proceedings, , consumers can bring individual lawsuits against the bank seeking compensation for damages on the basis of exchange rate differences, as well as for compensation for changes in interest rates.

In February 2019, the Supreme Court ruled that consumers had a legal interest in determining the nullity of certain contractual clauses of CHF-denominated loans converted to EUR with the refund of exchange rate difference based on the prescribed conversion procedure from Chapter IV.a. of the Consumer Credit Act from September 2015.

In the case of individual lawsuits for compensation due to a unilateral change in interest rate and contracting of the foreign-currency index in CHF, according to the Supreme Court decision, the limitation period starts as of the date of the final decision in the collective dispute, but the final decision on the statute of limitations for claims arising from these disputes will be made by the Constitutional Court.

In March 2020 the Supreme Court brought a decision in the pilot judgment procedure, and ruled that the conversion agreements were valid. In addition in May 2020 the Supreme Court referred a request to the Court of Justice of the European Union for a preliminary ruling on the converted loans.

Individual provisions for lawsuits against the Bank were formed for all disputes except for the consumer disputes for CHF-related loans with the value of claim of less than HRK 70 thousand for which lump-sum provisions were formed. The total amount of provisions was increased for the value of the CHF consumer credit portfolio, for which the Bank has information that lawsuits have been initiated, but the courts have not yet submitted the applications to the Bank to respond by the end of 2021.

In disputes initiated with a claim based on one of two types of nullity (for a foreign-currency index in CHF or for a unilateral change in the interest rate) lump sum provisions are formed and for a claim for nullity that has not yet been initiated but is likely to be initiated in the future.

The basis for calculating lump sum provisions for consumer litigation for CHF-related loans consists of a lawsuit claims, default interest and costs of proceedings. The claim is included in the base in the amount of the difference in the repayment of the loan from the nullity base of credit agreement articles for which nullity has been ruled in a collective procedure (foreign-currency index in CHF and unilateral change in interest rate). Default interest is included in the basis for differences in claims up to the estimated date the termination of the dispute and the costs of the proceedings on the part of the plaintiff are included until the estimated date of the final judgment.For disputed CHF loans that were repaid or converted before September 30, 2015 the bank formed provisions in the total amount of the claim, default interest and costs of the proceedings. For disputed loans converted into EUR by the annex agreement in accordance with the provisions of the Consumer Credit Act, the Bank has formed provisions in the half of the amount of claims, default interest and costs of proceedings.

(all amounts are shown in HRK millions)

27. Other liabilities

	Group 2021	Group 2020	Bank 2021	Bank 2020
Technical reserves for pension insurance	1,495	1,207	-	-
Liabilities in respect of credit and debit card business	120	94	120	94
Liabilities in respect of advances received for insurance premium	69	121	-	-
Liabilities to employees	57	62	50	56
Liabilities to suppliers	46	68	37	61
Liabilities for loan prepayments	24	19	20	15
Management fee liabilities	20	20	-	-
Liabilities for inactive clients funds	16	25	16	25
Deferred fee and commission income prepayments	13	16	8	9
Liabilities for VAT, tax and surtax on interest	8	8	7	6
Repurchase of domestic currency cash	3	5	3	5
Other liabilities	29	24	17	14
	1,900	**1,669**	**278**	**285**

Technical reserves for pension insurance provisions have been computed by the licensed actuary, company Raiffeisen mirovinsko osiguravajuće društvo, in accordance with the method prescribed by the Law on Pension Insurance Companies and Payment of Pensions based on Individual Capitalised Savings.

The management believes that the current level of technical reserves is sufficient to meet all liabilities which may arise from the pension insurance contracts concluded by 31 December 2021.

Amounts reported under Other liabilities mainly refer to clearing and transition accounts.

(all amounts are shown in HRK millions)

28. Subordinated liabilities

The Bank used the subordinated loan to increase its regulatory capital.
At 31 December 2021 the Bank had two subordinated loans: EUR 50 million loan with final maturity on 28 May 2022 at a fixed rate of 6.75% and EUR 20 million loan with final maturity on 20 May 2029 and interest at 3M EURIBOR + 5.75%). The interest liability is paid by the Bank in accordance with the terms of the contract, while the principal will be repaid at maturity.

	Group 2021	Group 2020	Bank 2021	Bank 2020
Loan	529	531	529	531
	529	**531**	**529**	**531**

29. Interest income

a) Analysis by product

	Group 2021	Group 2020	Bank 2021	Bank 2020
Interest income calculated using the effective interest method				
Placements with banks	2	1	2	3
Loans and advances to customers and similar entities	188	215	164	190
Loans and advances to individuals	644	664	611	626
Financial instruments at fair value through other comprehensive income	24	37	21	33
Financial instruments at amortised cost	21	17	11	7
	879	**934**	**809**	**859**
Other interest income				
Derivative financial instruments	4	6	6	6
Other financial assets at fair value through profit or loss	33	29	16	14
Derivative financial instruments – hedge accounting	2	2	2	2
Financial assets measured mandatorily at fair value through profit or loss	-	-	2	2
	39	**37**	**26**	**24**
	918	**971**	**835**	**883**

(all amounts are shown in HRK millions)

29. Interest income (continued)

b) Analysis by source

	Group 2021	Group 2020	Bank 2021	Bank 2020
Interest income calculated using the effective interest rate method				
Companies	188	188	158	183
Individuals	644	663	611	626
State and the public sector	44	69	38	41
Banks and other financial institutions	3	14	2	9
	879	**934**	**809**	**859**
Other interest income				
Companies	7	8	7	8
State and the public sector	28	23	12	9
Banks and other financial institutions	4	6	7	7
	39	**37**	**26**	**24**
	918	**971**	**835**	**883**

(all amounts are shown in HRK millions)

30. Interest expense

a) Analysis by product

	Group 2021	Group 2020	Bank 2021	Bank 2020
Derivative financial instruments	7	8	7	8
Derivative financial instruments in fair value hedges	6	5	6	5
Deposits from banks	11	7	11	7
Debt securities issued	1	-	1	-
Deposits from companies and other similar entities	1	2	1	1
Deposits from individuals	16	25	4	7
Borrowings	11	18	6	10
Lease liabilities	-	-	3	3
Subordinated liabilities	35	35	35	35
	88	**100**	**74**	**76**

b) Analysis by recipient

	Group 2021	Group 2020	Bank 2021	Bank 2020
Companies	2	2	4	5
Individuals	16	26	6	7
State and public sector	5	7	5	7
Banks and other financial institutions	65	65	59	57
	88	**100**	**74**	**76**

(all amounts are shown in HRK millions)

31. Fee and commission income

a) Analysis by product

	Group 2021	Group 2020	Bank 2021	Bank 2020
Domestic payment transactions	135	112	136	113
Investment management, custody and consultancy fees	170	182	15	22
Credit cards	342	187	342	187
Foreign payment transactions	47	39	47	39
Partial recharge of credit insurance costs	24	17	24	17
Guarantees and letter of credits	28	28	28	28
Loans and accounts administration fee	67	62	64	58
Other fees and commission income	57	43	56	45
	870	**670**	**712**	**509**

b) Analysis by source

	Group 2021	Group 2020	Bank 2021	Bank 2020
Companies	414	375	259	215
Individuals	164	140	160	138
State and public sector	5	12	5	12
Banks and other financial institutions	287	143	288	144
	870	**670**	**712**	**509**

(all amounts are shown in HRK millions)

32. Fee and commission expense

a) Analysis by product

	Group 2021	Group 2020	Bank 2021	Bank 2020
Credit card related charges	298	186	297	186
Domestic payment transactions	25	18	25	18
Partially rechargeable credit insurance costs (Note 29)	39	32	39	32
Other fees and commission expense	48	40	19	17
	410	**276**	**380**	**253**

Under a Business Cooperation Agreement between the Bank and the insurance company, the Bank pays insurance companies a premium, which is recharged to clients of the Bank.

b) Analysis by recipient

	Group 2021	Group 2020	Bank 2021	Bank 2020
Companies	373	244	343	221
Banks and other financial institutions	37	32	37	32
	410	**276**	**380**	**253**

(all amounts are shown in HRK millions)

33. Net (loss)/gain on financial instruments at fair value and foreign exchange differences from translation of monetary assets and liabilities

	Group 2021	Group 2020	Bank 2021	Bank 2020
Gains less losses from trading financial instruments				
- Debt securities	(10)	(4)	(10)	(4)
- Equity securities (investment in investing funds)	-	(1)	-	(1)
- Derivative financial instruments	82	(36)	73	(27)
	72	*(41)*	*63*	*(32)*
Gains less losses from financial assets mandatorily at fair value through profit or loss				
Unrealized gain/(loss) from sale :				
- equity securities	-	5	1	6
- units in investment funds	(1)	(2)	-	-
	(1)	*3*	*1*	*6*
Gains less losses from financial assets designated at fair value through profit or loss				
Realised gain/(loss) on disposal of:				
- debt securities	(2)	4	-	1
- share in investment funds	1	-	-	-
Unrealised gain/(loss) on:				
- debt securities	(18)	(5)	(4)	-
	(19)	*(1)*	*(4)*	*1*
Realised gains / (losses) on financial assets at fair value through other comprehensive income	1	(12)	1	(12)
Net (loss)/gain on financial instruments at fair value	**53**	**(51)**	**61**	**(37)**

(all amounts are shown in HRK millions)

33. Net (loss)/gain on financial instruments at fair value and foreign exchange differences from translation of monetary assets and liabilities (continued)

	Group 2021	Group 2020	Bank 2021	Bank 2020
Gains less losses arising from trading in foreign currencies	156	127	156	129
Gains less losses arising from revaluation of monetary assets and liabilities, which are not trading with securities				
- net gain on foreign exchange translation of assets and liabilities in foreign currency	(25)	(68)	(24)	(61)
- net loss on foreign exchange translation of assets and liabilities with foreign currency clause	(22)	106	(19)	92
Total foreign exchange differences	*(47)*	*38*	*(43)*	*31*
Net gain on trading and foreign exchange differences from translation of monetary assets and liabilities	**109**	**165**	**113**	**160**
Net losses from hedge accounting	**-**	**(1)**	**-**	**(1)**
	162	**113**	**174**	**122**

Net (loss) / gain from derivative instruments include net trading losses from interest rate and currency swaps, futures, forwards and forward rate agreements

34. Other operating income

	Group 2021	Group 2020	Bank 2021	Bank 2020
Rental income from operating leases	28	43	-	-
Premium on pension insurance contracts	496	724	-	-
Dividend from subsidiaries	-	-	51	56
Profit from assets sale in operating lease	1	-	-	-
Other income	107	57	31	35
	632	**824**	**82**	**91**

(all amounts are shown in HRK millions)

35. Operating expenses

	Group 2021	Group 2020	Bank 2021	Bank 2020
Personnel expenses	393	407	338	350
Increase in technical reserve for pension insurance	326	503	-	-
Repayment of pension contract	171	202	-	-
IT expenses	94	82	94	82
Legal, advisory and audit expenses	52	57	56	61
REGOS, HANFA expenses	37	36	-	-
Office space expenses	35	34	43	47
Advertising, PR and promotional expenses	26	27	26	26
Communication expenses	25	29	25	29
Resolution fund fee	22	23	22	23
Deposit insurance expense	1	43	1	40
Investment in subsidiaries - reconciliation	-	-	2	-
Other administrative expenses	151	144	73	50
	1,333	**1,587**	**680**	**708**

Personnel expenses of the Group include HRK 64 million (2020: HRK 64 million) of defined pension contributions paid or payable into obligatory pension plans. Contributions are calculated as a percentage of employees' gross salaries. At 31 December 2021 the Group had 1,869 employees (2019: 1,937 employees).

Personnel expenses of the Bank include HRK 55 million (2020: HRK 55 million) of defined pension contributions paid or payable into obligatory pension plans. Contributions are calculated as a percentage of employees' gross salaries. At 31 December 2021 the Bank had 1,649 employees (2020: 1,713 employees).

Legal, advisory and audit expenses include fee for the statutory audit of the annual financial statements in the amount of HRK 1.0 (2020: HRK 0.8 million) and other fees in the amount of HRK 0.5 million (2020: HRK 0.4 million).

(all amounts are shown in HRK millions)

35 a) Depreciation

	Grupa 2021	Grupa 2020	Banka 2021	Banka 2020
Depreciation of property, plant, equipment and investment property (note 14a)	48	45	40	36
Depreciation of intangible assets (Note 16)	56	51	54	49
Depreciation of right of use assets (note 15)	7	13	23	26
Depreciation of property, plant and equipment under operating lease (Note 14c)	24	32	-	-
Depreciation of investment property (Note 14b)	1	1	-	-
	136	**142**	**117**	**111**

36. Impairment losses

	Group 2021	Group 2020	Bank 2021	Bank 2020
Cash and current accounts with banks (Note 7)	5	27	5	26
Obligatory reserve with the Croatian National Bank (Note 8)	7	9	7	9
Placements with and loans to other banks (Note 10)	-	4	-	4
Loans and advances to customers	75	(208)	74	(200)
Investment securities at amortised cost (Note 12a)	8	(3)	8	(4)
Investment securities at fair value through other comprehensive income (Note 12b)	15	27	14	26
Other assets (Note 18)	(2)	(11)	(2)	(10)
	108	**(155)**	**106**	**(149)**
Hereof:				
Stage 1	139	65	134	56
Stage 2	(5)	(76)	(7)	(73)
Stage 3	(42)	(121)	(37)	(109)
POCI	16	(23)	16	(23)
	108	**(155)**	**106**	**(149)**

(all amounts are shown in HRK millions)

37. Income tax expense

	Group 2021	Group 2020	Bank 2021	Bank 2020
Recognised in profit or loss				
- Current tax expense	(103)	(18)	(81)	(1)
- Deferred taxes	(12)	(36)	(12)	(40)
Income tax expense	**(115)**	**(54)**	**(93)**	**(41)**
Profit before tax	**608**	**181**	**542**	**173**
Income tax at 18% (2020: 18%)	(110)	(33)	(98)	(31)
Non-deductible expenses	(6)	(23)	(6)	(22)
Tax incentives and tax-exempt income	1	2	11	12
Income tax expense	**(115)**	**(54)**	**(93)**	**(41)**

In accordance with tax regulations, the Tax Administration may at any time review the books and records of the Bank and the Group for a period of three years after the end of the year in which the tax liability is stated.

Deferred tax assets

During 2021 subsidiaries didn't have gross tax losses (2020: HRK 3 million). Such tax losses may only be used by the company that incurred the loss to reduce taxable profits of the following five years.

The expiry dates for unused tax losses were as follows:

Group

	Gross tax losses 2021	Tax benefit 2021	Gross tax losses 2020	Tax benefit 2020
31 December 2020	-	-	-	-
31 December 2021	-	-	-	-
31 December 2022	-	-	-	-
31 December 2023	-	-	-	-
31 December 2024	-	-	-	-
31 December 2025	-	-	3	1
	-	**-**	**3**	**1**

(all amounts are shown in HRK millions)

37. Income tax expense (continued)

Deferred tax assets (continued)

Bank

	Gross tax losses 2021	**Tax benefit 2021**	**Gross tax losses 2020**	**Tax benefit 2020**
31 December 2020	-	-	-	-
31 December 2021	-	-	-	-
31 December 2022	-	-	-	-
31 December 2023	-	-	-	-
31 December 2024	-	-	-	-
	-	**-**	**-**	**-**

38. Share capital

Group and Bank	**2021 Total shares**	**2020 Total shares**
Share capital	**3,621**	**3,621**
Nominal value per share	kn 1,000	kn 1,000
Number of shares	**3,621,432**	**3,621,432**

The parent bank of the Group is Raiffeisen Bank International AG, a company founded in Austria.

	2021 Ordinary Shares %	**2020 Ordinary Shares %**
Raiffeisen SEE Region Holding Gmbh	100	100
	100	**100**

39. Additional Tier 1 capital

On 4 March 2019, the Bank issued a EUR 40 million (HRK 297 million) bond which, according to the decision of the CNB, fulfils the conditions for allocation into Additional Tier 1 capital. The bond was issued without maturity date at a floating interest rate of 12M EURIBOR + 9.25%, contracted with zero floor, and is eligible for classification as equity instrument. The Bank will present this instrument in the financial statements within other equity instruments at the nominal HRK value, at the exchange rate on 8 March 2019, which is the date of recognition of the instrument as Additional Tier 1 capital of the Bank. Payment of bond yields are presented through movements of equity and reserve.

40. Other reserves

Share premium

The share premium in amount of HRK 12 million represents the accumulated positive difference between the nominal value and amount received upon issue of share capital.

Legal reserve

The legal reserve in amount of HRK 181 million for the Group (2020: HRK 181 million), and for the Bank HRK 173 million (2020: HRK 173 million) represents accumulated transfers from retained earnings in accordance with the Croatian Companies Act, which requires a minimum of 5% of the Bank's net profit to be transferred to a non-distributable statutory reserve until the reserve (including share premium) reaches 5% of the Bank's registered share capital. The legal reserve may be used to cover prior period losses if the losses are not covered by current year profits or if other reserves are not available.

Fair value reserve

The fair value reserve in amount of HRK 29 million for the Group (2020: HRK 59 million), and for the Bank HRK 27 million (2020: HRK 56 million) includes unrealised gains and losses on changes in the fair value of financial assets at fair value through other comprehensive income, net of deferred tax.

41. Proposed dividends

Dividends payable are not accounted for until they have been ratified at the General Shareholders Meeting.

Considering the overall situation related to the COVID-19 pandemic during 2020, in keeping with the regulatory guidelines, the Bank allocated net profit realized in 2019, less the allocation of HRK 35 million for the Additional Tier 1 Capital instrument (AT1), into Common Equity Tier 1 (CET1) items.
In January 2021, the regulator imposed a restriction on banks through the Decision on temporary restriction of distributions, therefore the profit for 2020 reduced by a distribution amount of HRK 28 million for the Additional Tier 1 Instrument (AT1), was allocated to retained earnings.
At the General Meeting held on 08 February 2022, a decision was adopted allocating HRK 301 million out of the total profit for 2021 to retained earnings.

During 2021 the subsidiaries proposed and paid HRK 51 million in dividends from retained earnings (2020: HRK 56 million).

(all amounts are shown in HRK millions)

42. Assets and liabilities from discontinued operation

As part of the process of optimizing asset management on RBI level, the Bank signed an Agreement on the sale of a 100% stake in Raiffeisen Invest d.o.o. with Raiffeisen Capital Management (RCM) in 2021. The Agreement was realized on 31 January 2022.

a) Effect of discontinued operation on comprehensive income of the Group

	2021
Fee and commission income	16
Fee and commission expense	-
Net fee and commission income	**16**
Operating expenses	(6)
Profit before tax	10
Income tax	-
Profit for the year from discontinued operations	**10**

b) Effect of discontinued operation on the financial position of the Group

	2021
Assets	
Intangible assets	1
Other assets	2
Total assets	**3**
Liabilities	
Other liabilities	1
Total liabilities	1
Equity and reserve	
Profit for the year	2
Total liabilitaies, equity and reserve	**3**

c) Effect of discontinued operation on the cash flow of the Group

	2021
Net cash flow from business activities	2
Net cash flow from financial activities	(2)
Net increase of cash and cash equivalents from discontinued operation	**-**

43. Non-controlling interest

The Group owns and realises 100% control in all subsidiaries that form the Group, it has rights over entire profit and equity, and consequently there is no non-controlling interest.

44. Earnings per share attributable to the equity holders of the parent

For the purpose of calculating earnings per share, earnings are calculated as the profit for the period attributable to equity holders of the Bank. The number of ordinary shares is the weighted average number of ordinary shares outstanding during the year after deducting the number of ordinary treasury shares. Given that there is no effect of options, convertible bonds or similar effect, the weighted average number of ordinary shares used for diluted earnings per share was the same as used to calculate basic earnings per share. Also, since there are no preferred shares and therefore neither dividends, available profit is equal to profit for the year after tax attributable to owners of the Bank.

In HRK	**Group 2021**	**Group 2020**
Net profit for the year attributable to owners of the parent (HRK)	503,376,765	127,659,390
Weighted average number of ordinary shares outstanding during the year	3,621,432	3,621,432
Earnings per share attributable to owners of the parent in HRK	**139.00**	**35.25**

45. Cash and cash equivalents

	Notes	**Group 2021 HRK millions**	**Group 2020 HRK millions**	**Bank 2021 HRK millions**	**Bank 2020 HRK millions**
Cash in hand	7	1,514	1,401	1,514	1,401
Gyro account with the Croatian National Bank	7	8,573	6,774	8,573	6,774
Current accounts with other banks	7	87	119	76	107
Placements with and loans to other banks with original maturity up to three months		61	81	61	57
Impairment allowance		-	*(5)*	-	*(5)*
		10,235	**8,370**	**10,224**	**8,334**

(all amounts are shown in HRK millions)

46. Concentration of assets and liabilities

The Group's and Bank's assets are significantly concentrated on amounts due from the Republic of Croatia, as follows:

	Notes	Group 2021	Group 2020	Bank 2021	Bank 2020
Gyro account with the Croatian National Bank	7	8,573	6,774	8,573	6,774
Obligatory reserve with the Croatian National Bank	8	1,870	1,605	1,870	1,605
Government bonds, direct exposure	9, 12a and 12b	5,481	4,778	4,068	3,469
Treasury bills issued by the Ministry of Finance	9, 12a and 12b	746	510	527	384
Loans and advances to customers		1,106	1,058	1,106	1,058
Provision for Stage 1 and 2/ unidentified impairment		(1)	(18)	(1)	(18)
Borrowings		(425)	(1,204)	(370)	(1,198)
Deposits from the Republic of Croatia		(37)	(53)	(37)	(53)
		17,313	**13,450**	**15,736**	**12,021**

In addition, the Bank had indirect exposure to the Republic of Croatia in respect of loans and advances to public funds and off-balance-sheet exposures as follows:

	Group 2021	Group 2020	Bank 2021	Bank 2020
Loans and advances to customers guaranteed by the State	308	372	308	372
Guarantees, letters of credit and undrawn lending facilities	5	14	5	14
	313	**386**	**313**	**386**

The total net direct and indirect on and off-balance-sheet exposure to Republic of Croatia represents 33% of the total assets and off-balance-sheet exposure of the Group (2020: 28%) and 32% of the total assets and off-balance-sheet exposure of the Bank (2020: 27%).

47. Repurchase and reverse repurchase agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate.

Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The financial instruments sold are not derecognised and the proceeds are accounted for as interest bearing borrowings. At the year-end assets sold under repurchase agreements were as follows:

Group/Bank	**Fair value of underlying assets HRK millions**	**Carrying amount of corresponding liabilities HRK millions**	**Repurchaseda te**	**Repurchase price HRK millions**
2021				
Securities at fair value through profit or loss	-	-	-	-
2020				
Securities at fair value through profit or loss	1,535	1,494	January 2021 – March 2025	1,503

Borrowings from the European Investment Bank in the amount of HRK 61 million (2020: HRK 91 million) are secured by securities in the amount of HRK 125 million (2020: HRK 129 million).

The Group also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds to customers and are accounted for as loans and advances to customers; the underlying financial instruments are not recognised. At year end assets purchased subject to agreements to resell them were as follows:

Group and Bank	**Fair value of underlying assets HRK millions**	**Carrying amount of corresponding assets HRK millions**	**Repurchase date**	**Repurchase price HRK millions**
Loans and advances to customers				
2021	61	55	January till March 2022	55
2020	63	59	January 2021	59

(all amounts are shown in HRK millions)

48. Commitments and contingent liabilities

The aggregate amounts of outstanding guarantees, letters of credit and undrawn loan commitments at 31 December were:

	Group 2021	Group 2020	Bank 2021	Bank 2020
Guarantees	3,012	2,840	3,015	2,840
Letters of credit	65	52	65	52
Undrawn lending facilities	2,599	2,434	2,244	2,161
Other risk off-balance sheet items	3,864	3,286	3,867	3,286
	9,540	**8,612**	**9,191**	**8,339**

At 31 December 2021 the Bank recognised provisions for off-balance-sheet risks arising from the issue of guarantees, letters of credits and undrawn lending commitments, in the amount of HRK 82 million (2020: HRK 122 million), which are included in provisions for liabilities and charges (Note 26).

The table below shows the market value security instruments for the Bank's off-balance exposure to credit risk minus senior rang mortgages of other lenders, up to the maximum amount of exposure.

	Group 2021			Bank 2021		
	Total exposure	**Impairment allowance**	**Collateral**	**Total exposure**	**Impairment allowance**	**Collateral**
Off balance exposure						
Stage 1	7,291	2	1,934	6,951	2	1,595
Stage 2	196	8	71	180	8	55
Stage 3	67	35	15	67	35	15
	7,554	**45**	**2,020**	**7,198**	**45**	**1,665**

	Group 2020			Bank 2020		
	Total exposure	**Impairment allowance**	**Collateral**	**Total exposure**	**Impairment allowance**	**Collateral**
Off balance exposure						
Stage 1	1,366	8	1,370	1,365	8	1,369
Stage 2	136	6	156	136	5	156
Stage 3	22	9	22	22	9	22
	1,524	**23**	**1,548**	**1,523**	**22**	**1,547**

49. Assets and liabilities managed on behalf of third parties

The Group provides trust and custody services to companies, banks, individuals, and investment and pension funds (all non-Group) whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets are not assets of the Group and are not recognised in the consolidated statement of financial position. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2021 the total assets under custody held by the Group on behalf of customers were HRK 3,496 million (2020: HRK 4,047 million). Further, at 31 December 2021, the total assets of investment and pension funds managed by the Group amounted to HRK 43,879 million (2020: HRK 39,885 million).

In 2021 the Group made income in the amount of HRK 182 million (2020: HRK 170 million) of fees on custody activities provided to companies, banks and individuals, and management of investment and pension funds.

At 31 December 2021 the Group and the Bank managed loans on behalf of third parties as follows:

	2021 **HRK millions**	**2020** **HRK millions**
Assets		
- Loans to companies	113	492
Total assets	**113**	**492**
Liabilities		
- Financial institutions	113	492
Total liabilities	**113**	**492**

50. Related party transactions

Raiffeisenbank Austria d.d. and its subsidiaries are directly owned by Raiffeisen Bank International AG (“the RBI”), a company incorporated in Austria, to which and to whose affiliates (collectively “the RBI Group”) the Group provides banking services. The Bank considers that it has an immediate related party relationship with its subsidiaries and associates (“the Group”), with its key shareholders, the Supervisory and Management Board members and other executive management of the Bank (together “key management personnel”), close family members of key management personnel, their close family members and entities jointly controlled or significantly influenced by key management personnel and their close family members. Key management personnel include members of the Management and Supervisory Boards of Group members.

Key transactions with related parties

Assets and liabilities and off-balance sheet exposures and income and expenses as at and for the year ended 31 December, arising from transactions with related parties were as follows:

(all amounts are shown in HRK millions)

50. Related party transactions (continued)

	Group 2021	Group 2020	Bank 2021	Bank 2020
Interest, fee and commission income				
(Notes 29, 31, 34)				
- Raiffeisen Leasing d.o.o.	-	-	3	2
- Raiffeisen stambena štedionica d.d.	-	-	3	5
- Raiffeisen consulting d.o.o.	-	-	4	5
- Raiffeisen mirovinsko društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	-	-	2	2
- Raiffeisen Invest d.o.o.	-	-	6	5
- Raiffeisenbank International (RBI)	13	11	13	11
	13	**11**	**32**	**30**

Interest income is generated from loans and advances to customers and derivative financial assets, and fee income primarily relates to the management of sales channels for products of Raiffeisen Invest and Raiffeisen pension company for the management of voluntary and mandatory pension funds, and payment service fees.

	Group 2021	Group 2020	Bank 2021	Bank 2020
Interest, fee and commission expense (Notes 30 and 32)				
- Raiffeisen consulting d.o.o.	-	-	(2)	(3)
- RBI	(55)	(56)	(51)	(51)
- Ukrainian Processing Centre PJSC	(3)	-	(3)	-
- Regional Card Processing Center s.r.o.	(15)	(2)	(15)	(2)
- Centralised Raiffeisen International Services&Payment S.R.L.	(3)	(3	(3)	(3)
	(76)	**(61)**	**(74)**	**(59)**

Interest expense relates to interest on operating lease and subordinated instrumentsg, and commission expenses relate to commission for card business payment services.

	Group 2021	Group 2020	Bank 2021	Bank 2020
Trading and other income (Note 33)				
- Raiffeisen Leasing d.o.o.	-	-	2	3
- Raiffeisen stambena štedionica d.d.	-	-	(4)	7
- Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	-	-	52	59
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	(2)	3
- Raiffeisen Invest d.o.o.	-	-	3	1
- Raiffeisenbank International (RBI)	(54)	(62)	(54)	89
	(54)	**(62)**	**(3)**	**162**

The largest portion relates to the dividend from subsidiary, and trading income is related to derivative transactions.

(all amounts are shown in HRK millions)

50. Related party transactions (continued)

	Group 2021	Group 2020	Bank 2021	Bank 2020
Operating expenses (Note 35)				
- Raiffeisen Leasing d.o.o.	-	-	(4)	(4)
- Raiffeisen Consulting d.o.o.	-	-	(29)	(28)
- Raiffeisenbank International (RBI)	(38)	(41)	(38)	(41)
- Regional Card Processing Center s.r.o.	(2)	(1)	(2)	(1)
	(40)	**(42)**	**(73)**	**(74)**

Operating expenses include costs for lease of business premises, group projects and consulting services.

Assets	Group 2021	Group 2020	Bank 2021	Bank 2020
Current accounts and placements with banks (Notes 7 and 10)				
- Raiffeisen stambena štedionica d.d.	-	-	37	37
- Raiffeisenbank International (RBI)	64	74	64	74
- Raiffeisen Bank d.d. Bosna i Hercegovina	-	1	-	1
- Raiffeisenbank a.s.	1	9	1	9
-Raiffeisen Bank Zrt.	1	1	1	1
-Raiffeisen banka a.d.	6	6	6	6
	72	**91**	**109**	**128**
Loans and advances to customers (Note 11)				
- Raiffeisen Consulting d.o.o.	-	-	131	136
- Raiffeisen Leasing d.o.o.	-	-	234	259
	-	**-**	**365**	**395**
Derivative financial assets (Note 9)				
- Raiffeisen stambena štedionica d.d.	-	-	8	14
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	-	-
- Raiffeisenbank International (RBI)	29	131	29	131
	29	**131**	**37**	**145**
Accrued income and other assets (Note 18)				
- Raiffeisen Invest d.o.o.	-	-	1	-
- Raiffeisen Leasing d.o.o.	-	-	6	10
- Raiffeisen consulting d.o.o.	-	-	95	116
- Raiffeisenbank International (RBI)	3	1	3	1
	3	**1**	**104**	**127**

(all amounts are shown in HRK millions)

50. Related party transactions (continued)

	Group 2021	Group 2020	Bank 2021	Bank 2020
Liabilities				
Deposits (Notes 21 and 22)				
- Raiffeisen Leasing d.o.o.	-	-	62	62
- Raiffeisen stambena štedionica d.d.	-	-	254	156
- Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	-	-	117	72
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	62	117
- Raiffeisen Invest d.o.o.	-	-	9	9
- Raiffeisenbank International (RBI)	9	96	9	96
- Raiffeisen Bank d.d. Bosna i Hercegovina	5	4	5	4
-Raiffeisenbank a.s.	1		1	
-Raiffeisen Bank Zrt.	2	1	2	1
-Raiffeisen banka a.d.		2		2
-Tatra banka, a.s.	1	1	1	1
Total	**18**	**104**	**522**	**520**
Borrowings and subordinated liabilities (Notes 24, 28)				
- Raiffeisenbank International (RBI)	856	1,663	535	1,284
Total	**856**	**1,663**	**535**	**1,284**
Derivative financial liabilities (Notes 20)				
- Raiffeisenbank International (RBI)	66	81	66	81
Total	**66**	**81**	**66**	**81**
Accrued and other liabilities (Note 27)				
- Raiffeisen Leasing d.o.o.	-	-	6	9
- Raiffeisen Consulting d.o.o.	-	-	99	117
- RBI	14	16	14	16
- Regional Card Processing Center s.r.o.	-	1	-	1
- Raiffeisen Centrobank AG	-	1	-	1
Total	**14**	**18**	**119**	**144**
Off-balance sheet exposure				
Derivative instruments				
- Raiffeisen Leasing d.o.o.	-	-	34	30
- Raiffeisen stambena štedionica d.d.	-	-	75	75
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	514	292
- Raiffeisenbank International (RBI)	8,100	9,682	8,100	9,682
Total	**8,100**	**9,682**	**8,723**	**10,079**
Contingent Liabilities (Note 48)				
- Raiffeisen consulting d.o.o.	-	-	3	5
- Raiffeisen Leasing d.o.o.	-	-	3	-
- Raiffeisenbank International (RBI)	30	5	30	5
-Raiffeisen Bank d.d. Bosna i Hercegovina	-	1	-	1
-Raiffeisen Bank Zrt.	2	-	2	-
-Raiffeisen Bank Kosovo J.S.C.	4	-	4	-
Total	**36**	**6**	**42**	**11**

(all amounts are shown in HRK millions)

50. Related party transactions (continued)

2021	Exposure	Liabilities	Income	Expense
Group				
Key management personnel				
Short-term benefits (salaries and fees)	-	19	-	31
Long-term benefits	-	-	-	2
Loans and advances	14	-	-	-
Deposits		21	-	-
Total	**14**	**40**	**-**	**33**
Bank				
Key management personnel				
Short-term benefits (salaries and fees)	-	16	-	14
Long-term benefits	-	-	-	1
Loans and advances	1	-	-	-
Deposits	-	1	-	-
Total	**1**	**17**	**-**	**15**

2020	Exposure	Liabilities	Income	Expense
Group				
Key management personnel				
Short-term benefits (salaries and fees)	-	18	-	38
Long-term benefits	-	-	-	6
Loans and advances	17	-	1	-
Deposits		28	-	-
Total	**17**	**46**	1	**44**
Bank				
Key management personnel				
Short-term benefits (salaries and fees)	-	15	-	17
Long-term benefits	-	-	-	3
Loans and advances	2	-	-	-
Deposits	-	6	-	-
Total	**2**	**21**	**-**	**20**

Long-term benefits include variable benefits for identified staff.

In 2021 the Bank paid out to RBI a coupon on AT1 instrument in the amount of HRK 28 million.

51. Risk Management

This note provides details of the Group's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

An integrated system of risk management is established at the Group level by introducing a set of policies and procedures, determining the limits of risk levels acceptable to the Group. The limits are set according to the amount of regulatory capital and apply to all types of risk. The Group developed methodologies and models for operational risk management.

Credit risk

Credit risk is the risk of default, or the possibility that the invested funds may not be repaid on time or in full and in accordance with the planned schedule. Once a year, the Bank establishes credit policies defining the level of credit risk it is willing to take. The credit policy is revised by the Credit Committee, the Management Board and the Supervisory Board, usually for a period of one year or more frequently as may be necessary due to changes in market conditions. The credit policy of the Bank is also aligned with the Group's credit policy guidelines. Credit risk policies are developed on the basis of business strategy and budget for all business segments.

Credit risk is determined for the limit of each client or group of related clients, analyzing and assessing all aspects that have a significant impact on the credit risk limit, and especially it is necessary to emphasize critical risk issues regarding each limit and consider them, where possible, through different possible scenarios for the development of the situation. The documentation on which the assessment is based should be reviewed independently by bank experts in certain fields (lawyers, credit analysts, collateral appraisers, etc.).

The credit risk assessment process starts with the establishment of the Client Rating, which represents a credit risk assessment arising from business cooperation and / or is contained in the bank's exposure to an individual debtor or group of related parties. Afterwards, a credit proposal is formed which is sent to the teams in charge of approving placements ("Underwritting"), who issue independent written opinions (CRM statement) for all applications before forwarding them for approval to the competent decision-making body. The opinion on the market value of collateral related to the client limit is issued by the competent teams for the management of collateral.

Limits are approved in accordance with the Bank's applicable credit policy. It is possible to exceptionally approve limits that deviate from credit policy if there is a valid justification for such a decision (it is also a mandatory part of the credit application). Upon approval of limit, customer risk monitoring is established on an individual basis through the Early Warning System (EWS) applications. The role of EWS tasks is related to: support for timely (so-called early) identification of changes in the risk of individual client and timely assignment of Client Risk Status (CRS) based on EWS signal processing by analyzing the severity and cause arising during their activation.

According to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Sub-Section 2, Article 178 Default of an obligor, a default shall be considered to have occurred with regard to a particular obligor when either or both of the following have taken place:
a) the institution considers that the obligor 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
b) the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.
Regulations of the European Union apply directly in the Member States, including in the Republic of Croatia. According to Article 15 of the Decision implementing the part of Regulation (EU) No 575/2013 pertaining to the valuation of assets and off-balance sheet items and the calculation of own funds and capital requirements (OG no. 87/2018), the credit institution shall apply the materiality threshold referred to in Article 2 Item 2 of Commission Delegated Regulation (EU) 2018/171 in such a way that the absolute component is set at HRK 3,750 and the relative component is set at 1%.

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Credit risk (continued)

The calculation of the expected credit loss in Stage 1 relates to the 12-month expected credit loss, whereas Stage 2 expected credit loss relates to the lifetime expected credit loss. The calculation is based on statistical parameters of the probability default and LGD and parameters estimated on historical regional time series data. In addition, PD parameter is adjusted for the anticipated macroeconomic effect of the region as well as for industry-specific risk. If one of the above criteria is met, the financial asset which is subject to the provisioning transfers to Stage 2 and, accordingly, assumes a lifetime calculation of the expected credit loss instead of the previous 12-month expected credit loss.
The assessment of whether there has been a significant increase in credit risk is based on an increase in probability of default (PD) since initial recognition (quantitative criterion).
The forward-looking component is embedded through macro-economic models adjusting the PD parameter according to weighted anticipated macroeconomic scenarios.
Three types of scenarios are applied to the PD parameter: basic (50%), optimistic (25%) and pessimistic (25%). The values of the relevant macroeconomic variables of each scenario are based on Raiffeisen Research forecasts.
In addition, in 2021, due to the present market disruptions in certain service industries, the Bank applied the Special Risk Factor (SRF), where the identified specific risks could not have been adequately embedded in the client's rating. The quantitative SRF assessment is determined on the basis of the weighted value of the realization of historical provisioning of clients in the relevant industry.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

		Group 2021	**Group 2020**	**Bank 2021**	**Bank 2020**
Cash and accounts with banks (excluding cash in the cash register)	7	8,660	6,888	8,64	6,876
Obligatory reserve with the Croatian National Bank	8	1,870	1,598	1,870	1,598
Fair value hedge	9a	5	-	5	-
Financial assets at fair value through profit or loss	9	1,799	1,553	687	698
Placements with and loans to other banks	10	94	212	112	93
Loans and advances to customers	11	21,648	20,238	20,523	18,961
Debt securities					
at fair value through other comprehensive income	12b	4,589	4,781	4,414	4,509
at amortized cost	12a	2,577	1,730	2,180	1,418
Other financial assets	18	77	61	40	33
		41,319	**37,061**	**38,480**	**34,186**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Credit risk (continued)

Quality analysis of credit portfolio

Group 2021	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Low risk	27,424	512	-	7	27,943
Medium risk	6,513	1,924	-	27	8,464
High risk	652	1,112	-	14	1,778
Default	-	-	746	233	979
Without rating	2,542	515	114	18	3,189
Balance sheet impairment allowance	(74)	(239)	(590)	(131)	(1,034)
Carrying amount	**37,057**	**3,824**	**270**	**168**	**41,319**

Bank 2021	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Low risk	25,903	511	-	7	26,421
Medium risk	6,227	1,909	-	27	8,163
High risk	633	1,027	-	14	1,674
Default	-	-	686	232	918
Without rating	1,803	381	100	17	2,301
Balance sheet impairment allowance	(72)	(235)	(560)	(130)	(997)
Carrying amount	**34,494**	**3,593**	**226**	**167**	**38,480**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Credit risk (continued)

Quality analysis of credit portfolio (continued)

Group **2020**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Low risk	19,766	2,225	-	1	21,992
Medium risk	4,111	4,687	-	32	8,830
High risk	414	851	1	4	1,270
Default	-	-	863	187	1,050
Without rating	4,221	794	112	14	5,141
Balance sheet impairment allowance	(126)	(306)	(637)	(153)	(1,222)
Carrying amount	**28,386**	**8,251**	**339**	**85**	**37,061**

Bank **2020**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Low risk	18,487	2,207	-	1	20,695
Medium risk	3,815	4,581	-	32	8,428
High risk	361	767	-	4	1,132
Default	-	-	778	186	964
Without rating	3,414	618	98	14	4,144
Balance sheet impairment allowance	(123)	(299)	(603)	(152)	(1,177)
Carrying amount	**25,954**	**7,874**	**273**	**85**	**34,186**

51. Risk Management (continued)

Credit risk (continued)

Quality analysis of credit portfolio (continued)

Group **2021**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Off - balance sheet exposure					
Low risk	5,179	5	-	-	5,184
Medium risk	1,926	88	-	-	2,014
High risk	69	99	-	-	168
Default	-	-	66	-	66
Without rating	1,824	276	7	1	2,108
Balance sheet impairment allowance	(17)	(26)	(39)	-	(82)
Carrying amount	**8,981**	**442**	**34**	**1**	**9,458**

Bank **2021**	**Stage 1** **HRK millions**	**Stage 2** **HRK millions**	**Stage 3** **HRK millions**	**POCI** **HRK millions**	**Total** **HRK millions**
Off - balance sheet exposure					
Low risk	5,036	6	-	-	5,042
Medium risk	1,828	85	-	-	1,913
High risk	68	85	-	-	153
Default	-	-	67		67
Without rating	1,732	276	7	1	2,016
Balance sheet impairment allowance	(17)	(26)	(39)		(82)
Carrying amount	**8,647**	**426**	**35**	**1**	**9,109**

51. Risk Management (continued)

Credit risk (continued)

Quality analysis of credit portfolio (continued)

Group **2020**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Off - balance sheet exposure					
Low risk	4,161	227	-	-	4,388
Medium risk	1,770	265	-	-	2,035
High risk	93	66	-	-	159
Default	-	-	89	1	90
Without rating	1,597	337	5	1	1,940
Balance sheet impairment allowance	(17)	(69)	(36)	-	(122)
Carrying amount	**7,604**	**826**	**58**	**2**	**8,490**

Bank **2020**	**Stage 1** **HRK millions**	**Stage 2** **HRK millions**	**Stage 3** **HRK millions**	**POCI** **HRK millions**	**Total** **HRK millions**
Off - balance sheet exposure					
Low risk	4,018	219	-	-	4,237
Medium risk	1,677	251	-	-	1,928
High risk	90	65	-	-	155
Default	-	-	90	1	91
Without rating	1,586	336	5	1	1,928
Balance sheet impairment allowance	(17)	(69)	(36)	-	(122)
Carrying amount	**7,354**	**802**	**59**	**2**	**8,217**

51. **Risk Management (continued)**

Credit risk (continued)

Collateral valuation

The Bank accepts real estate, movable property, deposits and guarantees as collateral. Real estate and movable property must be appraised by a certified court appraiser in accordance with the Valuation Act and other mandatory regulations. Value appraisal for the Bank is made by Raiffeisen Consulting, the Bank's real estate appraisal company, and its external contractors.

The collaterals undergoes a valuation process within the bank, performed by specially trained staff of the Credit Control and Collateral Management. In addition to the collateral valuation process, eligibility is determined for each security instrument in accordance with local and group regulations. All collaterals are subject to revaluation.

The frequency of collateral valuation depends on the type of collateral:

Collateral evaluation period	Type of collateral
at least every six months	Financial collateral
yearly	Commercial property
yearly	Residential property
monthly	Claims
yearly	Other

The revaluation method depends on the type of collateral and the exposure. For real estate which secures exposures of natural persons, statistical revaluation is performed, and for real estate which secures exposures of legal entities an internal desk top check is performed.

Movable property is revalued on a straight line basis according to the remaining lifecycle of the movable property.

51. Risk Management (continued)

Credit risk (continued)

Collateral valuation (continued)

The table below show the market value of collateral at 31 December 2021 and 31 December 2020 for the collateral which is used to secure all Group's and Bank's assets and off-balance exposures to credit risk. The market value is presented without any impairment. The market value is calculated in accordance with the directives applicable in the bank for value appraisal, revaluation etc.

Type of collateral	Group 2021 HRK millions	Group 2020 HRK millions	Bank 2021 HRK millions	Bank 2020 HRK millions
Commercial property	5,891	5,972	5,832	5,903
Cash deposits	239	273	237	271
Securities	7	6	7	6
Guarantess and similar instruments	2,416	2,473	2,412	2,472
Insurance policies		-		-
Funds	12	8	12	8
Movable property	1,214	1,321	454	521
Residential property	11,503	10,522	10,613	9,356
Total	**21,282**	**20,575**	**19,567**	**18,537**

The table shows the exposure of the Bank and the Group at 31 December 2021 and 31 December 2020 that were rated by external rating agencies

External rating – balance and off balance sheet exposure	Group 2021 HRK millions	Group 2020 HRK millions	Bank 2021 HRK millions	Bank 2020 HRK millions
A	9	18	9	18
A-	403	6,171	403	6,171
A+	254	343	254	343
AA	76	78	76	78
AA-	411	404	411	404
AA+	68	406	68	406
AAA	508	534	520	534
B	-	98	-	97
B-	74	-	75	-
BB+	-	132	-	132
BBB	-	-	-	-
BBB-	5,916	6,296	7,461	4,837
BBB+	112	206	141	156
Unrated	39,758	30,863	41,359	29,246
	47,589	**45,549**	**50,777**	**42,422**

Source: Standard&Poor's

51. Risk Management (continued)

Credit risk (continued)

First class collaterals

The Bank holds the first-class collaterals against individual exposures. The following table set outs principal types of collateral per different types of exposures

	% of loan exposure which is subject to collateral	Type of collateral
Loans to individuals		
Housing loans	100%	Residential property
Non purpose loans	-	-
Credit cards	-	-
Current account overdrafts	-	-
Loans to micro clients	-	-
Collateralised loans to micro clients	100%	Commercial property
Uncollateralised loans to micro clients	-	-
Loans to corporates	33%	Commercial property

Housing loans to private individuals

2021

LTV	Group HRK millions	Bank HRK millions
<40%	807	739
40%-60%	1,086	1,019
60%-80%	1,808	1,701
80%-90%	1,230	1,129
>90%	1,155	1,056
n/a	345	143
	6,431	**5,787**

2020

LTV	Group HRK millions	Bank HRK millions
<40%	759	675
40%-60%	951	882
60%-80%	1,584	1,468
80%-90%	1,000	888
>90%	1,163	1,002
n/a	367	143
	5,824	**5,058**

The value of received collaterals for housing loans is based on the estimated value of the real estate on the loan approval date. The collateral value is updated once a year in a revaluation process. For defaulted customers, the collateral value is based on an assessment made when the facility is transferred within the scope of competence of the Collections and Workout.

(all amounts are shown in HRK millions)

51.Risk Management (continued)

Credit risk (continued)

When presenting DPD delay, in the tables below, the net exposure of financial assets is classified as a certain DPD bracket depending on the duration of the delay of the due amount of the financial asset and the impairment stage to which that financial asset belongs on the reporting date.

Group **2021**	**Stage** **1**	**Stage** **2**	**Stage** **3**	**POCI**	**Total**
Balance sheet exposure					
Without delay	33,749	3,201	132	101	39,711
Delay <30 days	744	579	44	15	1,417
Delay >30 days	-	44	94	52	191
	34,493	**3,824**	**270**	**168**	**41,319**

Bank **2021**	**Stage** **1**	**Stage** **2**	**Stage** **3**	**POCI**	**Total**
Balance sheet exposure					
Without delay	33,749	2,983	105	101	36,938
Delay <30 days	744	568	42	15	1,369
Delay >30 days	-	42	79	52	173
	34,493	**3,593**	**226**	**168**	**38,480**

Group **2020**	**Stage** **1**	**Stage** **2**	**Stage** **3**	**POCI**	**Total**
Balance sheet exposure					
Without delay	27,986	7,138	170	61	35,355
Delay <30 days	400	1,039	67	16	1,522
Delay >30 days	-	74	102	8	184
	28,386	**8,251**	**339**	**85**	**37,061**

Bank **2020**	**Stage** **1**	**Stage** **2**	**Stage** **3**	**POCI**	**Total**
Balance sheet exposure					
Without delay	25,585	6,779	128	61	32,553
Delay <30 days	369	1,025	66	16	1,476
Delay >30 days	-	70	79	8	157
	25,954	**7,874**	**273**	**85**	**34,186**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Credit risk (continued)

The development of the Group's and the Bank's balance sheet exposure to credit risk and allowance for expected credit losses as at 31 December 2021 and 31 December 2020 is presented below:

Group 2021	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
On balance exposure					
Gross book value at 01 January	**28,512**	**8,557**	**976**	**238**	**38,283**
New Approvals	20,590	391	84	136	21,201
Derecognition (does not include write-off)	(12,559)	(1,126)	(128)	(45)	(13,858)
Transfer to Stage 1	3,592	(3,551)	(41)	-	-
Transfer to Stage 2	(824)	867	(43)	-	-
Transfer to Stage 3	(73)	(242)	315	-	-
POCI	(3)	(4)	(2)	9	-
Amounts recovered during the year	(2,163)	(818)	(204)	(33)	(3,218)
Write-off	(2)	(7)	(96)	(6)	(111)
Effects of exchange differences	61	(4)	(1)	-	56
At 31 December	**37,131**	**4,063**	**860**	**299**	**42,353**

Bank 2021	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
On balance exposure					
Gross book value at 01 January	**26,077**	**8,173**	**876**	**237**	**35,363**
New Approvals	20,028	377	77	136	20.618
Derecognition (does not include write-off)	(12,346)	(1,113)	(126)	(45)	(13,630)
Transfer to Stage 1	3,532	(3,493)	(39)	-	-
Transfer to Stage 2	(805)	847	(42)	-	-
Transfer to Stage 3	(69)	(233)	302	-	-
POCI	(3)	(4)	(2)	9	-
Amounts recovered during the year	(1,907)	(714)	(166)	(34)	(2,821)
Write-off	(2)	(8)	(93)	(6)	(109)
Effects of exchange differences	61	(4)	(1)	-	56
At 31 December	**34,566**	**3,828**	**786**	**297**	**39,477**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Credit risk (continued)

Group 2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
On balance exposure					
Gross book value at 01 January	**28,512**	**8,557**	**976**	**238**	**38,283**
New Approvals	17,916	1,139	48	70	19,173
Derecognition (does not include write-off)	(11,958)	(606)	(82)	(38)	(12,684)
Transfer to Stage 1	248	(234)	(14)	-	-
Transfer to Stage 2	(3,003)	3,055	(52)	-	-
Transfer to Stage 3	(277)	(189)	466	-	-
POCI	-	-	(1)	1	-
Amounts recovered during the year	(1,935)	(958)	(126)	(39)	(3,058)
Write-off	-	(1)	(172)	(13)	(186)
Effects of exchange differences	8	-	3	-	11
At 31 December	**28,512**	**8,557**	**976**	**238**	**38,283**

Bank 2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
On balance exposure					
Gross book value at 01 January	**26,077**	**8,173**	**876**	**237**	**35,363**
New Approvals	16,950	1,069	48	70	18,137
Derecognition (does not include write-off)	(11,428)	(597)	(64)	(38)	(12,127)
Transfer to Stage 1	225	(213)	(12)		-
Transfer to Stage 2	(2,653)	2,705	(52)	-	-
Transfer to Stage 3	(225)	(175)	400	-	-
POCI	-	-	(1)	1	-
Amounts recovered during the year	(1,753)	(898)	(108)	(39)	(2,798)
Write-off	-	(1)	(172)	(13)	(186)
Effects of exchange differences	8	-	3	-	11
At 31 December	**26,077**	**8,173**	**876**	**237**	**35,363**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Credit risk (continued)

Group 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Expected credit losses at 01 January	**126**	**306**	**637**	**153**	**1,222**
Derecognition (does not include write-off)	(23)	(48)	(88)	(15)	(174)
Transfer to Stage 1	104	(89)	(15)	-	-
Transfer to Stage 2	(21)	50	(29)	-	-
Transfer to Stage 3	-	(30)	30	-	-
POCI	-	(1)	(1)	2	-
Increase/(decrease) of impairment allowance	(112)	53	148	-	89
Write-off	-	(2)	(91)	(9)	(102)
Effects of exchange differences	-	-	(1)	-	(1)
At 31 December	**74**	**239**	**590**	**131**	**1,034**

Bank 2021	Stage 1	Stage 2	Stage 3	POCI	Total
Expected credit losses at 01 January	**123**	**299**	**603**	**152**	**1,177**
Derecognition (does not include write-off)	(23)	(48)	(83)	(15)	(169)
Transfer to Stage 1	102	(88)	(14)	-	-
Transfer to Stage 2	(21)	49	(28)	-	-
Transfer to Stage 3	-	(30)	30	-	-
POCI	-	(1)	(1)	2	-
Increase/(decrease) of impairment allowance	(109)	55	139	-	85
Write-off	-	(1)	(86)	(9)	(96)
Effects of exchange differences	-	-	-	-	-
At 31 December	**72**	**235**	**560**	**130**	**997**

Group 2020	Stage 1	Stage 2	Stage 3	POCI	Total
Expected credit losses at 01 January	**199**	**196**	**675**	**142**	**1,212**
Derecognition (does not include write-off)	(94)	(15)	(111)	(14)	(234)
Transfer to Stage 1	16	(7)	(9)	-	-
Transfer to Stage 2	(24)	58	(34)	-	-
Transfer to Stage 3	(2)	(14)	16	-	-
POCI	-	-	(1)	1	-
Increase/(decrease) of impairment allowance	31	89	208	37	365
Write-off	-	(1)	(108)	(13)	(122)
Effects of exchange differences	-	-	1	-	1
At 31 December	**126**	**306**	**637**	**153**	**1,222**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Credit risk (continued)

Bank 2020	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Expected credit losses at 01 January	**187**	**194**	**650**	**141**	**1,172**
Derecognition (does not include write-off)	(94)	(15)	(108)	(14)	(231)
Transfer to Stage 1	15	(7)	(8)	-	-
Transfer to Stage 2	(22)	56	(34)	-	-
Transfer to Stage 3	(2)	(14)	16	-	-
POCI	-	-	(1)	1	-
Increase/(decrease) of impairment allowance	39	86	194	37	356
Write-off	-	(1)	(107)	(13)	(121)
Effects of exchange differences	-	-	1	-	1
At 31 December	**123**	**299**	**603**	**152**	**1,177**

The above table is in connection to Note 36 Impairment losses, as follows: in the table, total impairment loss of the Group of HRK 108 million (Bank: HRK 106 million) (Note 36) is the sum of rows charge (release) of provisions of HRK 89 million (Bank: HRK 85 million) and derecognition – not including write-offs (Group: HRK 174 million and Bank: HRK 169 million). Additionally, also the amount of HRK 23 million for the Group (Bank: HRK 22 million) must be included in connection to portfolio sales profit and reduction in provisions for credit risks by the interest calculated on net carrying value .

The above table for 2020 is in connection to Note 36 Impairment losses, as follows: in the table, total impairment loss of the Group of HRK 155 million (Bank: HRK 149 million) (Note 36) is the sum of rows charge (release) of provisions of HRK 364 million (Bank: HRK 356 million) and derecognition – not including write-offs (Group: HRK 234 million and Bank: HRK 231 million). Additionally, also the amount of HRK 25 million for the Group (Bank: HRK 24 million) must be included in connection to portfolio sales profit.

The tables present gross exposures and allowance for expected loan losses at 31 December 2020 and 31 December 2021 by stages of financial asseets, whereby items Transition to stage 1, 2 or 3 present gross exposures and allowance for expected losses which were migrated to different asset stage in keeping with applicable the accounting policies. For the Private Individual and Micro segment, the increased share of Stage 2 in the total portfolio is mainly a result of the forward-looking approach that the Bank applied for the portfolio affected by coronavirus pandemic in 2020. Regarding the exposures that were migrated to Stage 2 in 2019 (unsecured loans that were not in compliance with the CNB's Recommendation on actions in granting non-housing consumer loans at the moment of underwriting) is determined during 2021 by using forward-looking approach that there are no longer reasons for classification in Stage 2 i.e. they are migrated to Stage 1 if some of the usual criteria for classification in Stage 2 or Stage 3 are not met.

The Forward looking approach for clients affected by the coronavirus is clarified in more detail in the part concerning the COVID-19 pandemic.

In the non-retail portfolio, the Bank began to fully apply the result of the RBI model for provisions in Stage 1 and Stage 2 during the year and abandoned the adjustment of the model results i.e. increasing the amount of provisions calculated by the model, based on the forward-looking component due to the coronavirus pandemic, based on expert judgment. The result is, the release of provisions in Stage 1 for HRK 31 million, and an increase in provisions in Stage 2 by HRK 55 million..

51. Risk Management (continued)

Credit risk (continued)

An overview of restructured balance sheet exposures by portfolio segment and by restructuring at 31 December 2021 and 31 December 2020 is given below:

Group

Amount of balance sheet exposures with forbearance measures						
	31 December 2021			31 December 2020		
HRK Million	perfoming exposures with forbearance measures	non-performing exposures with forbearance measures	Total	perfoming exposures with forbearance measures	non-performing exposures with forbearance measures	Total
Individuals	263	51	314	214	39	253
Companies and similar entities	180	173	353	125	123	248
	443	**224**	**667**	**339**	**162**	**501**

Bank

Amount of balance sheet exposures with forbearance measures						
	31 December 2021			31 December 2020		
HRK Million	perfoming exposures with forbearance measures	non-performing exposures with forbearance measures	Total	perfoming exposures with forbearance measures	non-performing exposures with forbearance measures	Total
Individuals	241	50	291	189	38	227
Companies and similar entities	157	147	304	88	69	157
	398	**197**	**595**	**277**	**107**	**384**

At 31 December 2021, the Bank's total non-performing loans amounted to HRK 1,158 million (2020: HRK 1,210 million) out of a total exposure of HRK 48,668 million (2020: HRK 43,702 million). Loan loss provisions were formed in the amount of HRK 703 million (2020: HRK 791 million) covering 61 percent (2020: 65 percent) of non-performing loans. At the Group level, non-performing loans totalled HRK 1,223 million (2020: HRK 1,310 million) out of a total exposure of HRK 51,893 million (2020: 46,895 million) of total placements. Loan loss provisions were formed in the amount of HRK 734 million (2020: HRK 826 million), covering 60 percent (2020: 63 percent) of non-performing loans.

51. Risk Management (continued)

Credit risk (continued)

The COVID-19 pandemic had an adverse impact on the business activities of a particular segment of legal entities and of private individuals, potentially resulting in liquidity difficulties to settle their financial liabilities. Aiming at reduction in long-term adverse impacts on the economy, the bank implemented a number of measures within the frameworks imposed by the Croatian National Bank, the EBA guidelines, and similar measures were applied by other credit institutions in the market.

In 2021 the bank allowed its clients to contract moratoria for loans in line with the extended application of the *Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA guidelines)* whereby all agreed moratoriums ended by 30 September 2021 at the latest.

Moratoria themselves have not caused reclassification of exposures into restructuring or reclassification of exposures into the default status. However, for all exposures, the Bank regularly assessed the probability of default of clients. In addition to the above, during the moratoria, the Bank analysed credit risk exposure on the basis of the available data on exposures and information collected from the customers on the capacity to continue their respective exposure repayment, and, where repayment was impossible, the Bank agreed with the respective client on adequate restructuring measures at the client’s request.

Active COVID moratoria (in accordance with EBA guidelines)	**31.12.2020**	
	Number of account in moratoria	**Exposure In HRK million**
Retail	446	55
Micro	179	37
Other companies	64	624
	689	**716**

As at 31 December 2021, there are no more active moratoria approved in accordance with EBA guidelines in the Bank's portfolio, and the Bank has offered all clients who continued to have COVID-related difficulties at the end of the moratorium some of the other forms of restructuring, and classified them in accordance with the applicable internal procedures.

Exposures to clients in higher-risk categories were migrated into Stage 2, or into A2 risk category, and impairment was determined on the basis of lifetime expected credit losses.
At the same time, since April 2020, and due to the uncertainty arising from the potential adverse impact on clients and their capacity to repay financial liabilities, the Bank has adjusted underwriting of credit and continued to adjust them in 2021 in accordance with the development of the epidemiological situation and its impact on the financial position of a particular group of clients, in order to adequately identify and mitigate risks.

In December 2020, Croatia was hit by a devastating earthquake with epicentre in the Sisak-Moslavina County, causing casualties and material damage to constructions in towns and villages. Aiming at reduction of long-term negative consequences, the bank stopped activation of new forced collection measures as a temporary support measure to clients affected by the earthquake and in 2021 provided the option of arranging a moratorium on loans in accordance with the CNB Circular Memo of January 2021 whose possible duration depended on the degree of impact on the property.

In 2021, there were no significant requirements for the implementation of the moratorium, and at 31 December 2021, there were 5 accounts with an active moratorium due to the earthquake remaining in the portfolio, with a total exposure of HRK 1.2 million. Also, at the end of 2020, the Bank designated all Retail exposures from Sisačko-Moslavačka County as Stage 2 exposures and classified them in the A2 risk category, in order to adequately reflect the increase in credit risk on this portfolio and recognised impairment based on lifetime expected credit loss for them. The assumption was reviewed by the Bank in 2021 and continued to apply the regular criteria for classifying portfolios in stages in accordance with internal methodologies as of 2Q2021 for this portfolio.

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Credit risk (continued)

Concentration of credit risk

Concentration of credit risk by geographic region and industry.

The Group and Bank have a diversified portfolio within Croatia covering all sectors of the economy. The majority of commercial lending is to companies and individuals domiciled in the Republic of Croatia. The Group and Bank have the following gross credit risk concentration by geographic region and industry:

	2021 Group		2020 Group		2021 Bank		2020 Bank	
	Balance sheet exposure	**Off-balance sheet exposure**	**Balance sheet exposure**	**Off-balance sheet exposure**	**Balance sheet exposure**	**Off-balance sheet exposure**	**Balance sheet exposure**	**Off-balance sheet exposure**
Geographic region:								
Croatia	39,854	9,244	35,546	8,555	36,978	8,895	32,646	8,282
Rest of EU	2,205	268	2,017	48	2,205	268	1,997	48
Non EU	293	28	720	9	293	28	720	9
Total	**42,353**	**9,540**	**38,283**	**8,612**	**39,477**	**9,191**	**35,363**	**8,339**
Impairment allowance	(1,034)	(82)	(1,222)	(122)	(997)	(82)	(1,177)	(122)
	41,319	**9,458**	**37,061**	**8,490**	**38,480**	**9,109**	**34,186**	**8,217**

Concentration of credit risk by industry:

	Group 2021 %	**Group 2020 %**	**Bank 2021 %**	**Bank 2020 %**
Individuals	30	31	29	31
Financial services	23	22	25	24
Trade	9	9	9	9
Central and local government	14	16	12	14
Construction	4	4	4	5
Food and drink industry	2	2	2	2
Non-metal industry	4	4	4	4
Electronics	2	2	2	2
Wood and paper industry	-	-	1	-
Craft and services	9	7	10	7
Other business activities	3	3	2	2
Total credit risk	**100**	**100**	**100**	**100**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Credit risk (continued)

Concentration of credit risk (continued)

Concentration of risk assets related to risk rating, including balance sheet and off-balance sheet exposure:

Group

Rating	2021 Total exposure	Impairment allowances	Net exposure	2020 Total exposure	Impairment allowances	Net exposure
A1	46,158	92	46,066	36,133	143	35,990
A2	4,512	290	4,222	9,452	375	9,077
B1	108	16	92	186	33	153
B2	341	163	178	384	168	216
B3	140	116	24	146	119	27
C	334	334	-	354	353	1
POCI	300	105	195	240	153	87
	51,893	**1,116**	**50,777**	**46,895**	**1,344**	**45,551**

Bank

Rating	2021 Total exposure	Impairment allowances	Net exposure	2020 Total exposure	Impairment allowances	Net exposure
A1	43,231	89	43,231	33,448	140	33,308
A2	4,279	287	4,279	9,044	368	8,676
B1	85	12	85	135	28	107
B2	312	149	312	357	157	200
B3	135	111	135	141	116	25
C	327	327	327	338	338	-
POCI	299	104	299	239	152	87
	48,668	**1,079**	**48,668**	**43,702**	**1,299**	**42,403**

51. Risk Management (continued)

Liquidity risk

One of the more important functions that banks have in the financial market is maturity transformation. The need for maturity transformation arises as a consequence of the fact that depositors want quick and short-term access to their deposited funds, while, on the other hand, the Bank's clients want access to financing through long-term loans. This results in a continuing reporting mismatch between inflows and outflows that the Bank generates over certain time bands (liquidity gap). In order to manage these mismatches, or gaps, the Bank enters into transactions with other members of the financial market, taking into account not only the contractual maturity of assets and liabilities but also their experiential mismatches. Liquidity gaps result in the Bank being exposed to liquidity risk, which arises in the form of a risk that the Bank will not be able to finance (refinance) its positions on acceptable terms at appropriate maturities and in the form of a risk that the Bank will not be able to effectively liquidate its assets within the appropriate timeframe.

The Group continuously assesses liquidity risk by identifying and monitoring changes in maturity gaps between inflows and outflows and changes in available funding required to achieve defined business targets and strategic objectives. In addition, the Group maintains a portfolio of liquid assets which can be used as a source of new funding if required. Liquidity risk is managed by aligning assets and liabilities, setting up market and credit limits, achieving appropriate liquidity ratios, maintaining sufficient liquidity buffer, conducting stress tests based on different scenarios, contingency plan and liquidity recovery plan.
These measures, estimates and analyses are regularly discussed at Asset and Liability Committee meetings.

The Group has aligned its business operations with the legal provisions governing liquidity risk and with group and internal regulations governing liquidity reserve maintenance.

Special consideration is given to Basel III liquidity risk measures:
- Liquidity Coverage Ratio (LCR) - a liquidity coverage ratio over a 30-day stress period, which is monitored on a daily basis and reported to the regulator on a monthly basis,
- Net Stable Funding Ratio (NSFR) - a structural indicator of liquidity risk exposure, which is calculated and reported quarterly

LCR and NSFR were maintained above regulatory and internal limits (defined internal limits are: LCR 110% ; NSFR 110%).

Million HRK	**31 December 2021**	**31 December 2020**
Liquidity coverage ratio (LCR)	**200%**	**175%**
Liquidity buffer	15,171.36	11,634.4
Net cash outflows	7,592.81	6,646.4

LCR on a consolidated basis at 31 December 2021 was 210%.

HRK millions	**31.12.2021**	**31.12.2020**
Net stable funding ratio (NSFR)	**169%**	**194%**
Requested funding sources	18,725.52	15,067.84
Available funding sources	31,633.90	29,190.57

Change in NSFR amount is comming from changed regulatory defined methodology which was applied from June 2021.

51. Risk Management (continued)

Liquidity risk (continued)

In addition, the Bank reports its liquidity risk exposure profile in supplementary liquidity report (ALMM) in detail on a monthly basis.

For internal purposes, the Group additionally measures and monitors liquidity risk through a system of measures aimed at assessing the Bank's liquidity position and its ability to meet future obligations, both in normal day-to-day activities (going concern scenario) and in crises and times of stress (time-to-wall). Stress test assessment is performed on a daily basis at the Group level to determine the required level of liquidity reserves.

The Bank / Group managed to maintain an extremly high level of liquidity during the whole 2021 without experiencing any significant deposit outflows and negative impact on both regulatory and internal liquidity ratios. During the year , the liquidity level constantly increased and at the end of the year the Bank's surplus liquidity amounted EUR 1,080 million at 31 December.

Short-term liquidity gap is analysed through excess liquidity and the survival horizon under stress. The analysis covers all balance sheet and off-balance sheet items.
The cumulative liquidity gap between assets and liabilities across time bands is managed by a system of limits set on an individual and consolidated basis.

	2021			2020		
EUR million	**7 days**	**30 days**	**1 year**	**7 days**	**30 days**	**1 year**
Liquidity gap (GC)	1,694	1,711	1,637	1,217	1,204	1,159

Additional control and restriction of liquidity risk exposure is achieved by monitoring the target loan-to-deposit ratios for certain members of the Group, taking into account Basel III requirements.

Special consideration is given to defining the Group's funding plans that include a wide variety of funding structures to mitigate funding liquidity risks. Funds are raised using a broad range of instruments including deposits, borrowings, and share capital. Different funding sources are coordinated and optimized. In November 2021 Bank issued MREL eligible bond with total notional amount of EUR 130 mn and maturitiy 2023, which additionally improved liquidity position of the Bank. The Bank monitors the concentration of funding sources through regular reporting to the ALCO on the share of the top 10 depositors from each segment in the total deposit amount. The Bank has established limits on deposit concentration with restrictions on deposits of Top 1 and Top 10 corporate depositors and Top 1, Top 10 and Top 100 retail deposits.

Through regulatory liquidity reporting with additional liquidity metrics, the Bank monitors and reports on each individual client with the total deposit/funding amount of more than 1% of the Bank's total liabilities as its share of the Bank's total liabilities. The share of those sources of financing in the Bank's total liabilities was 3.45% at 31 December 2021. With reporting date 30.6.2021 the Bank fully implemented changes in regulatory report on nett stable funding ratio (NSFR) and established monthly monitoring of this ratio for the purpose of internal reporting and liquidity risk management. Regards to internal reporting and liquidity risk monitoring, the Bank defined an internal limit for the concentration of funding sources and all depositors with amounts greater than the set limit are considered a higher risk and they are assigned a higher probability of outflows in relation to a comparable customer segment through internal liquidity measures.

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Liquidity risk (continued)

Maturity analysis

The residual maturity of the Group's assets and liabilities and equity as at 31 December 2021 and 31 December 2020 is presented in the tables below:

The items with an undefined maturity date are included in the category over 5 years, the reserve requirement in the category up to one month and not according to the maturity of the related liabilities. Demand deposits from retail and corporate customers are shown in the category up to one month although the Bank's experience is that a large part of these deposits has a much longer maturity and that maturity mismatches in the category up to one year would have been eliminated if their maturity was presented in accordance with expected rather than contractual maturity, and liquid financial assets at fair value through profit or loss for which there is an active secondary market in the category up to one month.

Group 2021	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets						
Cash and current accounts with banks	10,174	-	-	-	-	10,174
Obligatory reserve with the Croatian National Bank	1,870	-	-	-	-	1,870
Financial assets at fair value through profit or loss	717	18	1,152	-	-	1,887
Derivative financial instruments	5	-	-	-	-	5
Placements with and loans to other banks	79	2	13	-	-	94
Loans and advances to customers	1,102	1,174	4,118	9,169	6,085	21,648
Investment securities at amortized cost	267	230	1,622	175	283	2,577
Investment securities through other comprehensive income	646	1,796	2,055	83	20	4,600
Property, plant and equipment	-	-	-	-	703	703
Investment property	-	-	-	-	136	136
Property, plant and equipment under operating lease	-	-	-	-	129	129
Right of use assets	-	5	15	8	3	31
Intangible assets	-	-	-	-	401	401
Deferred tax assets	-	-	-	59	-	59
Other assets	117	3	7	5	33	165
Non-current assets held for sale	-	-	-	-	50	50
Non-current assets from discontinued operations	3	-	-	-	-	3
Total assets	**14,980**	**3,228**	**8,982**	**9,499**	**7,843**	**44,532**

(all amounts are shown in HRK millions)

51.Risk Management (continued)

Liquidity risk (continued)

Maturity analysis (continued)

Group 2021	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Liabilities, capital and reserves						
Financial liabilities at fair value through profit or loss	68	-	2	-	-	70
Deposits from banks	286	-	-	-	-	286
Deposits from companies and other similar entities	15,116	6	16	59	21	15,218
Deposits from individuals	18,149	4	28	99	43	18,323
Borrowings	19	59	308	607	92	1,085
Debt securities issued	-	-	1	977	-	978
Provisions for liabilities and charges	3	-	47	516	-	566
Lease liabilities	-	5	14	9	3	31
Other liabilities	373	40	134	432	921	1,900
Subordinated liabilities	-	3	376	-	150	529
Liabilities from discontinued operations	1	-	-	-	-	1
Equity attributable to the equity holders of the parent	-	-	-	-	5,463	5,463
Total liabilities and equity	**34,015**	**117**	**1,008**	**2,699**	**6,693**	**44,532**
Maturity gap	**(19,035)**	**3,111**	**7,974**	**6,800**	**1,150**	**-**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Maturity analysis (continued)

Group 2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks	8,289	-	-	-	-	8,289
Obligatory reserve with the Croatian National Bank	1,598	-	-	-	-	1,598
Financial assets at fair value through profit or loss	682	16	953	-	-	1,651
Fair value hedge						
Placements with and loans to other banks	187	25	-	-	-	212
Loans and advances to customers	739	1,233	2,999	9,602	5,665	20,238
Investment securities measured at amortized cost	26	2	8	1,310	384	1,730
Investment securities through other comprehensive income	52	385	790	3,524	40	4,791
Property, plant andequipment	-	-	-	-	791	791
Investment property	-	-	-	-	57	57
Property, plant and equipment under operating lease	-	-	-	-	119	119
Right of use assets	-	-	2	20	5	27
Intangible assets	-	-	-	-	348	348
Deferred tax assets	-	-	-	67	-	67
Tax prepayment	6	4	25	7	-	42
Other assets	84	4	30	25	24	167
Total assets	**11,663**	**1,669**	**4,807**	**14,555**	**7,433**	**40,127**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	198	-	2	-	-	200
Deposits from banks	267	-	-	-	-	267
Deposits from companies and other similar entities	12,632	2	20	57	18	12,729
Deposits from individuals	16,221	8	41	99	41	16,410
Borrowings	772	56	367	1,517	122	2,834
Provisions for liabilities and charges	3	-	60	388	-	451
Lease liabilities	-	-	2	21	7	30
Other liabilities	337	105	161	318	748	1,669
Subordinated liabilities	-	3	-	377	151	531
Equity attributable to the equity holders of the parent	-	-	-	-	5,006	5,006
Total liabilities and equity	**30,430**	**174**	**653**	**2,777**	**6,093**	**40,127**
Maturity gap	**(18,767)**	**1,495**	**4,154**	**11,778**	**1,340**	**-**

(all amounts are shown in HRK millions)

51.Risk Management (continued)

Maturity analysis (continued)

Bank 2021	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets						
Cash and current accounts with banks	10,163	-	-	-	-	10,163
Obligatory reserve with the Croatian National Bank	1,870	-	-	-	-	1,870
Financial assets at fair value through profit or loss	467	1	243	-	-	711
Placements with and loans to other banks	60	3	13	36	-	112
Loans and advances to customers	1,090	1,076	3,874	8,770	5,713	20,523
Investment securities at amortized cost	264	227	1,527	162	-	2,180
Investment securities through other comprehensive income	644	1,771	2,000	-	10	4,425
Investments in subsidiaries	-	-	-	-	374	374
Property, plant, equipment and investment property	-	-	-	-	476	476
Right of use assets	-	5	14	61	45	125
Intangible assets	-	-	-	-	368	368
Deferred tax assets	-	-	-	49	-	49
Other assets	90	-	-	-	33	123
Non-current assets held for sale	-	-	-	-	58	58
Total assets	**14,653**	**3,083**	**7,671**	**9,078**	**7,077**	**41,562**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	69	-	-	-	-	69
Deposits from banks	541	-	-	-	-	541
Deposits from companies and other similar entities	15,365	6	14	44	21	15,450
Deposits from individuals	17,220	3	24	83	41	17,371
Borrowings	7	22	101	225	93	448
Debt securities issued	-	-	1	977	-	978
Provisions for liabilities and charges	-	-	47	500	-	547
Tax liabilities	-	-	80	-	-	80
Lease liabilities	-	5	13	61	49	128
Other liabilities	254	-	8	16	-	278
Subordinated liabilities	-	3	376	-	150	529
Equity					5,143	5,143
Total liabilities and equity	**33,456**	**39**	**664**	**1,906**	**5,497**	**41,562**
Maturity gap	**(18,803)**	**3,044**	**7,007**	**7,172**	**1,580**	**-**

(all amounts are shown in HRK millions)

51.Risk Management (continued)

Maturity analysis (continued)

Bank 2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks	8,277	-	-	-	-	8,277
Obligatory reserve with the Croatian National Bank	1,598	-	-	-	-	1,598
Financial assets at fair value through profit or loss	565	1	151	-	-	717
Fair value hedge						
Placements with and loans to other banks	56	1	-	36	-	93
Loans and advances to customers	685	1,168	2,732	9,171	5,205	18,961
Investment securities measured at amortized cost	23	1	3	1,212	179	1,418
Investment securities through other comprehensive income	-	385	749	3,356	29	4,519
Investments in subsidiaries	-	-	-	-	384	384
Property, plant andequipment	-	-	-	-	527	527
Right of use assets	-	-	2	20	130	152
Intangible assets	-	-	-	-	314	314
Deferred tax assets	-	-	-	56	-	56
Tax prepayment	6	4	25	-	-	35
Other assets	65	-	-	24	24	113
Total assets	**11,275**	**1,560**	**3,662**	**13,875**	**6,792**	**37,164**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	199	-	-	-	-	199
Deposits from banks	424	-	-	-	-	424
Deposits from companies and other similar entities	12,892	1	16	40	18	12,967
Deposits from individuals	15,194	7	37	83	40	15,361
Borrowings	752	28	119	1,048	119	2,066
Provisions for liabilities and charges	-	-	43	388	-	431
Lease liabilities	-	-	2	19	131	152
Other liabilities	255	-	14	16	-	285
Subordinated liabilities	-	3	-	377	151	531
Equity	-	-	-	-	4,748	4,748
Total liabilities and equity	**29,716**	**39**	**231**	**1,971**	**5,207**	**37,164**
Maturity gap	**(18,441)**	**1,521**	**3,431**	**11,904**	**1,585**	**-**

51.Risk Management (continued)

Contractual maturity analysis

The table below provides an analysis of the expected outflows of financial liabilities at 31 December 2021 and 31 December 2020.

Group	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Liabililties							
Derivative financial liabilities	68	2	9	28	28	135	70
Deposits from banks	286	-	-	-	-	286	286
Deposits from companies and other similar entities	15,116	7	16	61	23	15,223	15,218
Deposits from individuals	18,149	4	34	119	44	18,350	18,323
Borrowings	19	70	326	652	112	1,179	1,085
Debt securities issued	-	-	4	979	-	983	978
Lease liabilities	-	5	16	23	13	57	31
Other financial liabilities	177	-	-	-	-	177	177
Subordinated liabilities	-	12	390	33	170	605	529
Total liabilities	**33,815**	**100**	**795**	**1,895**	**390**	**36,995**	**36,697**

Group 2020	Up to 1 month HRK millions	1-3 months HRK millions	3-12 months HRK millions	1-5 years HRK millions	Over 5 years HRK millions	Total HRK millions	Carrying amount HRK millions
Liabililties							
Derivative financial liabilities	198	2	12	37	29	278	200
Deposits from banks	267	-	-	-	-	267	267
Deposits from companies and other similar entities	12,632	2	20	59	21	12,734	12,729
Deposits from individuals	16,222	10	46	129	42	16,449	16,410
Borrowings	772	58	374	1,547	122	2,873	2,834
Lease liabilities	-	-	4	35	17	56	30
Other financial liabilities	194	-	-	-	-	194	194
Subordinated liabilities	-	13	27	425	179	644	531
Total liabilities	**30,285**	**85**	**483**	**2,232**	**410**	**33,495**	**33,195**

51.Risk Management (continued)

Contractual maturity analysis (continued)

Bank 2021	Up to 1 month HRK millions	1-3 months HRK millions	3-12 months HRK millions	1-5 years HRK millions	Over 5 years HRK millions	Total HRK millions	Carrying amount HRK millions
Liabililties							
Derivative financial liabilities	69	2	6	28	28	133	69
Deposits from banks	541	-	-	-	-	541	541
Deposits from companies and other similar entities	15,365	7	14	46	23	15,455	15,450
Deposits from individuals	17,220	3	28	87	42	17,380	17,371
Borrowings	7	31	113	257	113	521	448
Debt securities issued	-	-	4	979	-	983	978
Lease liabilities	-	5	15	75	59	154	128
Other financial liabilities	150	-	-	-	-	150	150
Subordinated liabilities	-	12	388	32	170	602	529
Total liabilities	**33,352**	**60**	**568**	**1,504**	**435**	**35,919**	**35,664**

Bank 2020	Up to 1 month HRK millions	1-3 months HRK millions	3-12 months HRK millions	1-5 years HRK millions	Over 5 years HRK millions	Total HRK millions	Carrying amount HRK millions
Liabililties							
Derivative financial liabilities	199	2	9	37	29	276	199
Deposits from banks	424	-	-	-	-	424	424
Deposits from companies and other similar entities	12,892	1	16	42	21	12,972	12,967
Deposits from individuals	15,195	8	40	91	41	15,375	15,361
Borrowings	752	28	119	1,058	119	2,076	2,066
Lease liabilities	-	-	4	33	141	178	152
Other financial liabilities	159	-	-	-	-	159	159
Subordinated liabilities	-	12	25	422	179	638	531
Liabililties	**29,621**	**51**	**213**	**1,683**	**530**	**32,098**	**31,859**

(all amounts are shown in HRK millions)

51.Risk Management (continued)

Financial assets available for future financing

Assets are considered encumbered if they have been pledged or if they are subject to any form of arrangement to secure, collateralise or enhance any on-balance or off-balance sheet transaction from which the Group cannot freely withdraw (for instance, assets pledged for funding purposes). Assets pledged that are subject to any restrictions in withdrawal, such as assets that require preapproval before withdrawal, or replacement by other assets, are considered as encumbered.

The Group's unencumbered assets are balance sheet assets which have not been:
- pledged or
- transferred without being derecognised or
- otherwise encumbered.

The Group's total encumbered and unencumbered assets recognised in the statement of financial position at 31 December 2021 and 31 December 2020 are presented in the following table.

Group

2021	**Carrying amount of encumbered asset**	**Carrying amount of non-encumbered asset**	**Total**
Asset			
Cash and current accounts with banks	-	10,174	10,174
Obligatory reserve with the Croatian National Bank	1,870	-	1,870
Placements with and loans to other banks	60	34	94
Investment securities	158	7,019	7,177
Loans and advances to customers	-	21,648	21,648
Other assets	-	3,569	3,569
	2,088	**42,444**	**44,532**

Bank

2021

	Carrying amount of encumbered asset	**Carrying amount of non-encumbered asset**	**Total**
Asset			
Cash and current accounts with banks	-	10,163	10,163
Obligatory reserve with the Croatian National Bank	1,870	-	1,870
Placements with and loans to other banks	60	52	112
Investment securities	158	6,447	6,605
Loans and advances to customers	-	20,523	20,523
Other assets	-	2,289	2,289
	2,088	**39,474**	**41,562**

(all amounts are shown in HRK millions)

51.Risk Management (continued)

Financial assets available for future financing (continued)

Group

2020	**Carrying amount of encumbered asset**	**Carrying amount of non-encumbered asset**	**Total**
Asset			
Cash and current accounts with banks	945	7,344	8,289
Obligatory reserve with the Croatian National Bank	1,598	-	1,598
Placements with and loans to other banks	19	193	212
Investment securities	1,786	4,735	6,521
Loans and advances to customers	-	20,238	20,238
Other assets	-	3,269	3,269
	4,348	**35,779**	**40,127**

Bank

2020

	Carrying amount of encumbered asset	**Carrying amount of non-encumbered asset**	**Total**
Asset			
Cash and current accounts with banks	945	7,332	8,277
Obligatory reserve with the Croatian National Bank	1,598	-	1,598
Placements with and loans to other banks	19	74	93
Investment securities	1,786	4,151	5,937
Loans and advances to customers	-	18,961	18,961
Other assets	-	2,298	2,298
	4,348	**32,816**	**37,164**

51.Risk Management (continued)

Market risk

Market risk is the risk of experiencing losses due to adverse changes in market prices, i.e. risk that changes in market prices, such as interest rates, foreign exchange rates and others could affect the Group's income or the value of its holdings of financial instruments. Market risk estimates are based on changes in exchange rates, interest rates, credit spreads, equity and commodity prices, and other market parameters. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Market risk management of the Group and the Bank is conducted in accordance with the laws, decisions and directives of domestic and foreign regulators and with prescribed internal policies and procedures which are regularly reviewed by risk management units.

RBA Group, being part of RBI Group, uses a comprehensive and consistent risk management approach for both the trading book and non-trading book. The following values are measured and limited on a daily basis within the market risk management system:

- Value-at-Risk (confidence level 99%, one-day holding period)

Value-at-risk (VaR) is the most important instrument for measuring market risks in normal situation. It expresses the maximum expected loss that the bank is willing to accept at a certain point of time. The VaR risk measure is a statistically defined estimate of the maximum amount of potential loss on the existing portfolio, to a predefined level of confidence level and for a certain holding period until positions could be closed. The Group uses a combination of a hybrid Monte Carlo and historical methods for VaR calculation. This methodology has been developed internally in the RBI Group to monitor the interest rate risk, foreign exchange risk, price risk, and the credit spread risk on the basis of a one-day holding period and a confidence level of 99%. This confidence level is used for internal monitoring.
The quality of the VaR model is continuously monitored by back-testing and by distributional test which is performed once a year.

- Value-at-Risk Hist (confidence level 99%, holding period 20 days)

Value-at-Risk Hist (VaRHist) is a variation of VaR, with an adjustment in the use of the historical series of data on risk factors measured and the period of holding the position. Through this measure, equally probable previous years' historical data are included, and 20-day overlapping returns on positions are observed. This simulation is suitable for measuring market risks in the non-trading book where assumptions are for longer periods of holding positions and a significant impact of market changes over a longer period of time as compared to trading book positions with a limited holding period.

- Stress tests

Value-at-risk number expresses the maximum loss that will not be exceeded at a predefined confidence level under normal market conditions, but does not provide additional information on potential impact that extraordinary market conditions may have on the portfolio of the Bank/Group. So, in order to take these events into account as well, the Group carries out daily stress tests. In this way potential crisis situations and their impact on the current positions are simulated. Stress testing is used to assess the effect of market risk on the Group's portfolio, total positions and limits in extraordinary conditions (market shocks).

Stress testing is conducted on a daily basis, and the results are included in the regular daily reports.

51.Risk Management (continued)

Market risk (continued)

- Position limits and limit to measures of sensitivity (to changes in exchange rates, interest rates, etc.)

The use of position limits eliminates concentration in normal business conditions. Position limits are the main tool to manage risk in extreme and illiquid market conditions.

In addition to the limit system defined by asset position, type and class, currency and issuer which ensures portfolio diversification, the concentration of positions is further penalized through prudential valuation adjustment, where the amount of additional valuation adjustment for concentrated positions is deducted from the total amount of capital.

The additional adjustment was necessary as there are frequent situations where the size of the position to which the quoted price on the market applies is unknown and market participants assume that the size of their position will not cause a difference between the current price and the quoted price. This view is formalised in Article 14 of Commission Delegated Regulation regarding prudential valuation, which defines the steps an institution must take when determining a position that is large enough to cause a spread between the transaction price and the quoted price. Once the concentrated position is identified, the Bank determines the number of working days required to exit the concentrated position. Where the prudent exit period exceeds 10 working days, the Bank estimates the CP AVA taking into account the difference between the quoted price and the position price, and treats it as an additional capital requirement based on the VaR methodology.

- Stop-loss limits

These limits ensure traders' discipline in measuring proprietary trading positions and substantially limit losses rather than allowing them to accumulate.

High-water mark year-to-date stop loss limits are applied to the cumulative profit and losses on a year-to date basis. S/L limits have to be defined and applied for all positions classified under IFRS 9 as kao Financial assets measured at fair value through other comprehensive income (FVTOCI) and Financial assets measured at fair value though profit and loss (FVTPL).

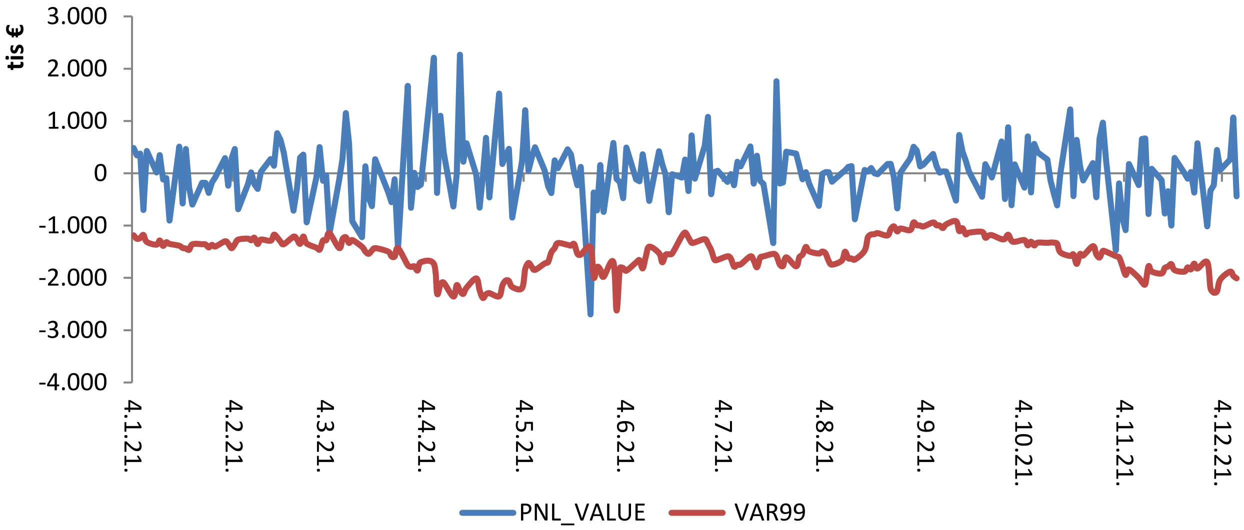
The limit resets to zero at the beginning of each calendar year, as the loss has to be calculated versus the maximum profit in the year-to-date period.

51. Risk Management (continued)

Market risk (continued)

The following table presents the Value-at-Risk for 2021 and 2020:

HRK millions	December 2021	December 2020	Average	min	max
Interest rate risk					
- trading book	0.74	0.91	1.06	0.57	1.71
- banking book	5.45	2.59	4.40	2.06	11.20
Currency risk	0.51	0.12	0.93	0.03	2.01
Credit Spread Risk	18.33	9.40	10.6	6.03	18.33
Price risk	0.05	0.00	0.03	0.00	0.06
Total VaR	18.61	9.60	11.97	6.84	19.72



The efficiency of VaR model is periodically tested with backtesting procedures. Backtesting methods comprise comparison of 1-day VaR figures with appropriate (hypothetical) statement of comprehensive income figures as seen on the next working day (i.e. over the horizon for which the VaR figure was calculated). Backtesting breach is recorded on date on which (hypothetical) statement of comprehensive income is negative and its absolute value is higher than the VaR calculated for that date (i.e. when the hypothetical loss is greater than the VaR). The high number of backtesting breaches detected during a certain period, in an amount that is higher than the one expected considering the confidence level chosen during the calculation of VaR figures, can indicate that there are certain deficiencies in the VaR model.

As the figure shows, during 2021 three backtesting violations which compared with the previous year (10 backtesting breaches) show that market movements were stable and were not causing much oscillations on VaR figures.
After calming the situation on the capital markets and finding the possibility of making a profit with acceptable levels of risk, the Bank took positions in equity securities in 2021, keeping the positions in smaller non material volumes.

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Interest rate risk

Interest rate risk is reflected as negative impact of interest rates on the present value of future cash flows, and hence the net interest income and other cash flows are sensitive to interest rate changes.

The primary sources of interest rate risk are as follows:

- repricing risk is a result of a timing differences in the maturity (for fix-rate) and repricing mismatch (for floating-rate) of assets and liabilities as well as off-balance-sheet positions;
- yield curve risk arises when unanticipated shifts of the yield curve have adverse effect on a bank's income or underlying economic value;
- basis risk arises from imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics (except the type of interest rate);
- Optionality risk.

Risk management activities are aimed at optimizing net interest income, given market interest rate levels, consistent with the Group's business strategies. To achieve its risk management objectives, the Group also uses interest rate derivatives.

Interest rate risk in trading book

The following two tables show the largest present value changes for the trading book (BPV per currencies for which this change is material) for 2021 and 2020:

BPV / Currency in HRK	EUR	USD	HRK
31 December 2021	(14,222.66)	(15,244.69)	(153,074.74)
Average	(94,389.04)	(13,248.99)	(146,398.10)
Minimum	(179,533.96)	(23,072.18)	(233,465.88)
Maximum	41,360.06	(5,645,67)	(38,462.68)

BPV / Currency in HRK	EUR	USD	HRK
31 December 2020	(171,187.00)	(16,192.40)	(46,246.11)
Average	(120,662.02)	(12,285.43)	(122,578.20)
Minimum	(176,780.10)	(32,030.23)	(275,568.93)
Maximum	(20,504.66)	(5,991.19)	(36,366.94)

Total BPV for trading book at 31 December 2021 was HRK 183.6 thousand as compared to 31 December 2020 when it was HRK 234.2 thousand.

For credit operations, fallback clauses for the benchmark rate are embedded in accordance with legal regulations (for legal entities they are directly embedded in contracts that are due after 2021, and for natural persons the fallback is referenced in general terms and conditions). The LIBOR related portfolio maturing after 2021 is not material (<EUR 2mn) and is mostly indexed to CHF and, only to a small extent, to USD. The European Commission resolved the CHF loans adopting a regulation declaring replacement rates for loans. In addition, CHF loans are currently at a fixed interest rate based on the provisions of the Consumer Credit Act. Clients are being informed of the new CHF loan reference rate. USD loans are not affected at this time as USD LIBOR will be discontinued 30 June 2023.

As for the derivatives transactions, the master agreement with the parent company has already been transferred to €STR. As the ISDA fallback protocol has been published, the Bank acceded to it to resolve other relevant master agreements. For counterparties that have not accessed the protocol, the replacement rate is agreed directly.

System application support has already been implemented in the Wall Street system in Treasury FO for new overnight rates, which are also loaded into the Lotus notes base. No significant IT engagement is expected so far to support new rates, only a system parametrization may be required.
The Bank actively monitors market developments and relevant regulatory decisions concerning the termination of IBOR rates.

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Interest rate risk (continued)

Interest rate risk in non-trading book

Asset-liability risk management activities are conducted in the context of the Group's sensitivity to interest rate changes. Decisions are based on various interest income analyses and simulations that ensure proper interest rate sensitivity in line with expected changes in market rates and overall risk appetite.

The following two tables show the largest present value changes for the non-trading book (BPV per currencies for which this change is material) for 2021 and 2020:

BPV / Currency in HRK	HRK	EUR	USD
31 December 2021	660,017	146,097	45,048.74
Average	522,685	238,507	(4,468.30)
Minimum	352,087	26,194	(51,034.47)
Maximum	689,475	538,651	45,048.74

BPV / Currency in HRK	HRK	EUR	USD
31 December 2020	369,930	146,325	10,936.65
Average	(280,007)	(407,788)	(19,823.53)
Minimum	(689,928)	(729,468)	(69,571.68)
Maximum	407,247	184,610	10,936.65

Total BPV for non-trading book at 31 December 2021 was HRK 856,04 thousand as compared to 31 December 2020 when it was HRK 530.9 thousand.
Interest rate risk in the banking book is measured not only by using the Value-at-Risk method but also by traditional tools such as interest rate gap analysis. In measuring interest rate risk exposures through sensitivity analysis of economic value, the bank applies the methodology set out in the Decision on Governance System, which requires measurement of the effect which is a result of a parallel shift of reference curves by a standard regulatory 200 basis points shock as well as measurementnmof the effect of change of economic value compared to the Tier 1 capital applying six different scenarios of refrence curve shiffting and all in line with EBA Guidelines for management of interest rate risk for the non trading book position. New regulation was applied from 31 March 2021. and is valid for the Bank and for the Group on consolidated level.

In HRK	31 December 2020
EUR	81,373
HRK	27,051
Other	(11,409)
Total	97,015
%	2.63%

	31.12.2021
ECONOMIC VALUE CHANGE – regulatory shock / REGULATORY CAPITAL	4.36%
ECONOMIC VALUE CHANGE – 6 additional shocks /TIER 1 CAPITAL	5.24%

51. Risk Management (continued)

Interest rate risk (continued)

The Group also measures exposure to interest rate risk by considering the effect on net interest income, in accordance with EBA guidelines on management of the interest rate risk.

In thousand HRK	31 December 2021	31 December 2020
Net interest income	93,955	190,587

The measurement of the impact on net interest income and the valuation of the Bank's interest rate book instrument is carried out in predefined scenarios in accordance with the EBA guidelines, and additional scenarios defined by the Group's chief macroeconomists. Interest sensitivity analysis (ISI) is performed for the Bank, Raiffeisen stambena štedionica d.d. and Raiffeisen Leasing d.o.o. to measure the total result against a stable scenario in a 24-month period.

The impact on net interest income is limited by the amount of regulatory capital. In calculating the effect of changes in interest rates, the Bank also includes effects based on models developed for positions without contractual maturity, and the effects of modelled impact of embedded options of asset and liability positions, such as loan prepayments and early withdrawals of fixed term deposits.

The impact of the 200 basis points shift on net interest income at 31 December 2020 and 31 December 2021 is presented in the following table:

ISI result as at 31 December 2021

	+200 bp		-200 bp	
	HRK	FCY	HRK	FCY
Effect on NII	43.95	(17.51)	(91.69)	(26.50)
Effect on financial assets value	(38.63)	(12.73)	18.49	8.14
Effect on result	(25)		(92)	

ISI result as at 31 December 2020

	+200 bp		-200 bp	
	HRK	FCY	HRK	FCY
Effect on NII	31.12	(44.437)	(172.06)	(63.60)
Effect on financial assets value	(50.86)	3.65	53.47	1.44
Effect on result	(68)		(181)	

51. Risk Management (continued)

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate, affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment. The primary exposure to equity prices arises from equity securities measured at fair value through profit and loss.

Equity Delta is the indicator of the Bank's exposure to equity price risk arising from positions in equity securities held for trading. The Bank has established equity delta limits per position in a single instrument and a total equity delta limit as well as VaR limit for equity positions in trading book portfolio.

For the monitoring of its equity portfolio the Bank analyses the equity portfolio's sensitivity through Equity delta limits and VaR limits.
Total VaR for the positions in equity instruments at 31 December 2021 amounted HRK 48,9 thousand.

Exchange rate risk

The Group is exposed to currency risk/exchange rate risk which denotes the risk that one suffers losses due to open foreign exchange position.

Foreign currency exposure arises from foreign-currency denominated credit, deposit-taking, investment and trading activities. It is monitored daily in accordance to legislation and internally set limits, for each currency and in total amount of maximum allowed open foreign exchange position.

The Group manages its currency risk by setting principles and limits for foreign currency exposures and by monitoring these limits, including stop-loss limits. The Group directs its business activities towards trying to minimize the gap between assets and liabilities denominated in or linked to foreign currency, and maintaining daily business activities within daily allowed open limits per currency.
The Group is primarily exposed to EUR. In order to protect itself against currency risk, Group uses derivative financial instruments.

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Exchange rate risk (continued)

Currency analysis

Group 2021	EUR	EUR linked	CHF	CHF linked	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets								
Cash and current accounts with banks	2,686	-	17	-	71	2,774	7,400	10,174
Obligatory reserve with the Croatian National Bank	-	-	-	-	-	-	1,870	1,870
Financial assets at fair value through profit or loss	394	562	5	-	158	1,120	768	1,887
Derivative financial instruments	5	-	-	-	-	5	-	5
Placements with and loans to other banks	73	-	-	-	2	74	19	94
Loans and advances to customers	2,575	9,503	-	6	72	12,157	9,492	21,648
Investment securities measured at amortized cost	1,097	221	-	-	568	1,887	691	2,577
Investment securities through other comprehensive income	1,606	1,246	-	-	489	3,341	1,259	4,600
Property, plant and equipment	-	-	-	-	-	-	703	703
Investment in property	-	-	-	-	-	-	136	136
Property, plant and equipment within operating lease	-	-	-	-	-	-	129	129
Right of use assets	-	1	-	-	-	1	30	31
Intangible assets	-	-	-	-	-	-	401	401
Deferred tax assets	-	-	-	-	-	-	60	60
Tax prepayment	-	-	-	-	-	-	-	-
Other assets	2	7	1	-	2	12	152	165
Non-current assets held for sale	-	-	-	-	-	-	50	50
Non-current assets from discontinued operations	-	-	-	-	-	-	3	3
Total assets	**8,438**	**11,540**	**23**	**6**	**1,363**	**21,370**	**23,161**	**44,532**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	29	-	-	-	35	64	6	70
Deposits from banks	42	-	11	-	41	94	192	286
Deposits from companies and other similar entities	4,157	18	26	-	647	4,848	10,370	15,218
Deposits from individuals	9,933	693	421	-	1,541	12,588	5,736	18,323
Borrowings	657	155	-	-	-	812	272	1,085
Debt securities issued	978	-	-	-	-	978	-	978
Provisions for liabilities and charges	12	-	-	-	-	12	553	566
Tax liabilities	-	-	-	-	-	-	82	82
Lease liabilities	-	1	-	-	-	1	30	31
Other liabilities	11	264	7	-	1	283	1,616	1,900
Subordinated liabilities	529	-	-	-	-	529	-	529
Liabilities from discounted operations	-	-	-	-	-	-	1	1
Equity attributable to the equity holders of the parent	-	-	-	-	-	-	5,463	5,463
Total liabilities and equity	**16,348**	**1,131**	**465**	**-**	**2,266**	**20,210**	**24,320**	**44,532**
Currency gap	**(7,911)**	**10,409**	**(441)**	**6**	**(903)**	**1,160**	**(1,160)**	**-**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Exchange rate risk (continued)

Currency analysis (continued)

Group 2020	EUR	EUR linked	CHF	CHF linked	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets								
Cash and current accounts with banks	1,122	3	28	-	93	1,246	7,043	8,289
Obligatory reserve with the Croatian National Bank	-	-	-	-	-	-	1,598	1,598
Financial assets at fair value through profit or loss	81	709	-	-	238	1,028	623	1,651
Derivative financial instruments	-	-	-	-	-	-	-	-
Placements with and loans to other banks	18	-	-	-	-	18	194	212
Loans and advances to customers	2,308	8,164	-	8	9	10,489	9,749	20,238
Investment securities measured at amortized cost	550	305	-	-	274	1,129	601	1,730
Investment securities through other comprehensive income	1,433	1,076	-	-	857	3,366	1,425	4,791
Property, plant and equipment	-	-	-	-	-	-	791	791
Investment property							57	57
Property, plant and equipment under operating lease							119	119
Right of use assets	-	-	-	-	-	-	27	27
Intangible assets	-	-	-	-	-	-	348	348
Deferred tax assets	-	-	-	-	-	-	67	67
Tax prepayment	-	-	-	-	-	-	42	42
Other assets	5	8	1	-	3	17	150	167
Total assets	**5,517**	**10,265**	**29**	**8**	**1,474**	**17,293**	**22,834**	**40,127**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	63	-	1	-	13	77	123	200
Deposits from banks	123	-	12	-	19	154	113	267
Deposits from companies and other similar entities	3,405	22	23	-	527	3,977	8,752	12,729
Deposits from individuals	9,045	788	353	-	1,350	11,536	4,874	16,410
Borrowings	1,556	168	-	-	-	1,724	1,110	2,834
Provisions for liabilities and charges	27	2	-	-	1	30	421	451
Lease liabilities	1	-	-	-	-	1	29	30
Other liabilities	30	302	-	-	11	343	1,326	1,669
Subordinated liabilities	531	-	-	-	-	531	-	531
Equity attributable to the equity holders of the parent	-	-	-	-	-	-	5,006	5,006
Total liabilities and equity	**14,781**	**1,282**	**389**	**-**	**1,921**	**18,373**	**21,754**	**40,127**
Currency gap	**(9,264)**	**8,983**	**(360)**	**8**	**(447)**	**(1,080)**	**1,080**	**-**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Exchange rate risk (continued)

Currency analysis (continued)

Bank

2021	**EUR**	**EUR linked**	**CHF**	**CHF linked**	**Other foreign currencies**	**Total foreign currencies**	**Domestic currency**	**Total currencies**
Assets								
Cash and current accounts with banks	2,679	-	17	-	71	2,767	7,396	10,163
Obligatory reserve with the Croatian National Bank	-	-	-	-	-	-	1,870	1,870
Financial assets at fair value through profit or loss	102	141	5	-	158	407	305	711
Derivative financial instruments	5	-	-	-	-	5	-	5
Placements with and loans to other banks	73	-	-	-	2	74	37	112
Loans and advances to customers	2,575	8,251	-	6	72	10,905	9,619	20,523
Investment securities measured at amortized cost	924	15	-	-	568	1,508	673	2,180
Investment securities through other comprehensive income	1,606	1,143	-	-	489	3,238	1,187	4,425
Investments in subsidiaries	-	-	-	-	-	-	374	374
Property, plant, and equipment	-	-	-	-	-	-	476	476
Right of use assets	-	-	-	-	-	-	125	125
Intangible assets	-	-	-	-	-	-	368	368
Deferred tax assets	-	-	-	-	-	-	49	49
Tax prepayment	-	-	-	-	-	-	-	-
Other assets	2	-	1	-	2	5	118	123
Non- current assets held for sale	-	-	-	-	-	-	58	58
Total assets	**7,966**	**9,550**	**23**	**6**	**1,363**	**18,908**	**22,653**	**41,562**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	29	-	-	-	35	64	5	69
Deposits from banks	42	-	11	-	41	94	447	541
Deposits from companies and other similar entities	4,157	-	26	-	647	4,830	10,620	15,450
Deposits from individuals	9,933	2	421	-	1,541	11,897	5,474	17,371
Borrowings	75	155	-	-	-	230	217	448
Debt securities issued	978	-	-	-	-	978	-	978
Provisions for liabilities and charges	12	-	-	-	-	12	534	547
Tax liabilities	-	-	-	-	-	-	80	80
Lease liabilities	-	28	-	-	-	28	100	128
Other liabilities	11	7	7	-	1	26	251	278
Subordinated liabilities	529	-	-	-	-	529	-	529
Equity	-	-	-	-	-	-	5,143	5,143
Total liabilities and equity	**15,766**	**192**	**465**	**-**	**2,266**	**18,689**	**22,871**	**41,562**
Currency gap	**(7,801)**	**9,358**	**(441)**	**6**	**(903)**	**219**	**(218)**	**-**

(all amounts are shown in HRK millions)

51.Risk Management (continued)

Exchange rate risk (continued)

Currency analysis (continued)

Bank

2020	**EUR**	**EUR linked**	**CHF**	**CHF linked**	**Other foreign currencies**	**Total foreign currencies**	**Domestic currency**	**Total currencies**
Assets								
Cash and current accounts with banks	1,122	-	28	-	93	1,243	7,034	8,277
Obligatory reserve with the Croatian National Bank	-	-	-	-	-	-	1,598	1,598
Financial assets at fair value through profit or loss	74	154	-	-	238	466	251	717
Derivative financial instruments	-	-	-	-	-	-	-	-
Placements with and loans to other banks	18	-	-	-	-	18	75	93
Loans and advances to customers	2,308	6,725	-	8	9	9,050	9,911	18,961
Investment securities measured at amortized cost	550	15	-	-	274	839	579	1,418
Investment securities through other comprehensive income	1,433	967	-	-	857	3,257	1,262	4,519
Investments in subsidiaries	-	-	-	-	-	-	384	384
Property, plant andequipment	-	-	-	-	-	-	527	527
Right of use assets	-	-	-	-	-	-	152	152
Intangible assets	-	-	-	-	-	-	314	314
Deferred tax assets	-	-	-	-	-	-	56	56
Tax prepayment	-	-	-	-	-	-	35	35
Other assets	5	-	1	-	3	9	104	113
Total assets	**5,510**	**7,861**	**29**	**8**	**1,474**	**14,882**	**22,282**	**37,164**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	63	-	1	-	12	76	123	199
Deposits from banks	123	-	12	-	19	154	270	424
Deposits from companies and other similar entities	3,405	-	23	-	527	3,955	9,012	12,967
Deposits from individuals	9,045	2	353	-	1,350	10,750	4,611	15,361
Borrowings	870	168	-	-	-	1,038	1,028	2,066
Provisions for liabilities and charges	27	2	-	-	1	30	401	431
Lease liabilities	-	33	-	-	-	33	119	152
Other liabilities	30	6	-	-	11	47	238	285
Subordinated liabilities	531	-	-	-	-	531	-	531
Equity	-	-	-	-	-	-	4,748	4,748
Total liabilities and equity	**14,094**	**211**	**389**	**-**	**1,920**	**16,614**	**20,550**	**37,164**
Currency gap	**(8,584)**	**7,650**	**(360)**	**8**	**(446)**	**(1,732)**	**1,732**	**-**

51.Risk Management (continued)

Operational risk

Operational risk is defined as the risk of financial losses resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk, but excludes strategic and reputational risk.

With the aim of efficient operational risk management, the Group built system based on standards and principles defined in EU Directives and Regulations, the Credit Institutions Act and the CNB Decisions, Basel Committee documents and RBI Group Directives.

The Group's Operational Risk Management Framework consists of processes for managing, monitoring, risk control and mitigation of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is structured to increase transparency of operational risks across the Group, strengthen management of operational risk exposures and ensure full compliance with regulatory requirements.

Roles and responsibilities

The Group fosters an open environment and culture, while all employees of the Group, through their individual roles and responsibilities, contribute to maintaining an effective Operational Risk Management Framework. Awareness of the culture of risk management is continuously executed through education of all participants of the process and improvement of the reporting system.
System of responsibilities for managing operational risk is based on three lines of defence which contribute in maintaining an effective Operational Risk Management framework.

- The first line of defence is the risk originating units whose business activities give rise to risk and consequently these are the risk originating units and they actively manage with own operational risk.
- The second line of defence provides an independent assessment of operational risk, oversight and challenges the first line of defence and is comprised of the Management Board member responsible for risks, the Committee for management of the operational risk and controls and Control of the operating risks. The Committee oversees the activities in relation to operating risks, aligns suggestions for overcoming of the risks and provides recommendations for management of the operating risk,
- The third line of defence is Internal Audit, it reviews effectiveness and suitability of the general risk management processes.

Risk identification, measurement, management and reporting

Operational Risk is managed within the Risk Management cycle, which encompasses the identification, measurement, management and reporting of risk.

Operational risks in the Group are identified on a proactive and regular basis within: products, processes, systems and external factors.

Operational Risk measurement can be both quantitative and qualitative in nature and include the following instruments:

- *Risk assessments* serve to increase operational risk awareness, identify operational risks and mitigate identified operational risks.
- *Early Warning Indicators* provide an early warning signal for potential issues or changes in Operational Risk Profile that may warrant management action.
- *Event Data Collection* and analysis of internal operational risk events provides meaningful information for measuring the impact of operational risk events and the effectiveness of the internal control environment.
- *Scenario Analysis* is a process by which the Group considers the impact of extreme, but plausible events on its operations and enables starting of measures to overcome risk that result from tail events.

51. Risk Management (continued)

Operational risk (continued)

Operational risk management strategies are defined through management framework, risk appetite and operational risk management measures to prevent operational risk events and reduce operational risk losses.

Risk identification, measurement, management and reporting (continued)

Risk mitigation represents managing the risk exposure, by taking the one of the following actions: risk avoidance, risk reduction, risk transfer and risk acceptance by informed decision. The Group defined triggers within risk identification tools which result in mandatory mitigation actions, however the development of mitigation actions is conducted as part of everyday business activities whenever they are identified.
Reporting supports the Operational Risk Management cycle by ensuring constant and timely information flow to the relevant decision making bodies. In this way, operational risk reporting supports risk transparency and the integration of Operational Risk Management activities into day-to-day business operations.

The Group uses the standardized approach for calculation of regulatory capital requirement for operational risk.

52. Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market condition (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

Financial instruments at fair value through profit or loss and at fair value through other comprehensive income are measured at fair value. Financial assets at amortised cost are measured at amortised cost less impairment.

The carrying amount of cash and current accounts with banks, placements with banks, deposits from banks and deposits from companies and similar entities, reflect their fair value due to the short-term maturity.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Loans and advances

The valuation method that applies to simple, plain-vanilla transactions are executed through discounted cash flow, which means that the generated future cash flows will be discounted with the appropriate discount rate that will reflect the current market situation and an additional add-on corresponding to the specifics of the individual sub-portfolios.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at date of reporting. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Borrowings

Most of the Group’s long-term debt has no quoted market price and fair value is estimated as the present value of future cash flows, discounted at interest rates available at date of reporting to the Group for new debt of similar type and remaining maturity.

(all amounts are shown in HRK millions)

52. Fair value of financial instruments (continued)

The following table analyses financial instruments that have been measured at fair value after initial recognition, classified into three levels, depending on the availability of fair value indicators (the table below excludes accrued interest):

- Level 1 of available observable indicators - fair value indicators are derived from (non-adjusted) prices quoted on active markets for similar assets and similar liabilities;
- Level 2 of available observable indicators - fair value indicators are derived from other data, other than quoted prices from Level 1, related to direct observation of assets or liabilities, ie their prices, or are obtained indirectly, ie derived from price; and
- Level 3 Indicator - Indicators derived using valuation methods in which asset data or liabilities that are not based on observable market data (inexhaustible input data) are used as input data).

Group 2021	**Note**	**Carrying amount**		**Fair value**		**Total fair value**
			Level 1	**Level 2**	**Level 3**	
Cash and current accounts with banks	7	10,174	-	-	10,174	10,174
Obligatory reserve with the Croatian National Bank	8	1,870	-	-	1,870	1,870
Financial assets at fair value through profit or loss						
Financial assets held for trading						
Debt securities	9	387	387	-	-	387
Equity securities		-	-	-	-	-
Derivative financial assets	9	70		70		70
Financial assets mandatorily at fair value through profit or loss						
Equity securities	9	24	3	21	-	24
Investment in investment funds	9	64			64	64
Financial assets at option fair value through profit or loss						
Debt securities	9	1,342	399	943	-	1,342
Derivative financial instruments	9a	5		5		5
Placements with and loans to other banks	10	94	-	-	94	94
Loans and advances to customers	11	21,648	-	-	22,225	22,225
Investment securities at FVOCI						
Debt securities	12b	4,589	4,589	-	-	4,589
Equity securities	12b	11	3	1	7	11
Investment securities at amortised cost						
Debt securities	12a	2,577	2,467	125	-	2,592
Other financial assets		78	-	-	78	78
		42,933	**7,848**	**1,165**	**34,512**	**43,525**
Financial liabilities at fair value through profit or loss	20	70	-	70	-	70
Deposits from banks	21	286	-	-	286	286
Deposits from companies and other similar entities	22	15,218	-	-	15,227	15,227
Deposits from individuals	23	18,323	-	-	18,335	18,335
Borrowings	24	1,085	-	-	1,109	1,109
Debt securities issued	25	978	1,142	-	-	1,142
Lease liabilities	15a	31	-	-	31	31
Other financial liabilities		177	-	-	177	177
Subordinated liabilities	28	529	-	-	544	544
		36,698	**1,142**	**70**	**35,709**	**36,921**

(all amounts are shown in HRK millions)

52. Fair value of financial instruments (continued)

Group 2020	**Note**	**Carrying amount**	**Fair value**			**Total fair value**
			Level 1	**Level 2**	**Level 3**	
Cash and current accounts with banks	7	8,289	-	-	8,289	8,289
Obligatory reserve with the Croatian National Bank	8	1,598	-	-	1,598	1,598
Financial assets at fair value through profit or loss						
Financial assets for trading						
Debt securities	9	409	396	13	-	409
Equity securities						
Derivative financial assets	9	141	-	141	-	141
Financial assets mandatorily at fair value through profit or loss						
Equity securities	9	20	1	19	-	20
Investment in investment funds	9	78	78	-	-	78
Financial assets at optionfair value through profit or loss						
Debt securities	9	1,003	371	632	-	1,003
Placements with and loans to other banks	10	212	-	-	212	212
Loans and advances to customers	11	20,238	-	-	19,250	19,250
Investment securities at FVOCI						
Debt securities	12b	4,781	4,348	433	-	4,781
Equity securities	12b	10	7	1	2	10
Investment securities at amortised cost		-	-	-	-	-
Debt securities	12a	1,730	1,584	168	-	1,752
Other financial assets		61	-	-	61	61
		38,570	**6,785**	**1,407**	**29,412**	**37,604**
Financial liabilities at fair value through profit or loss	20	200		200	-	200
Deposits from banks	21	267	-	-	267	267
Deposits from companies and other similar entities	22	12,729	-	-	12,736	12,736
Deposits from individuals	23	16,410	-	-	16,404	16,404
Borrowings	24	2,834	-	-	2,930	2,930
Lease liabilities	15a	30	-	-	30	30
Other financial liabilities		194	-	-	194	194
Subordinated liabilities	28	531	-	-	557	557
		33,195	**-**	**200**	**33,118**	**33,318**

(all amounts are shown in HRK millions)

52.Fair value of financial instruments (continued)

Bank 2021	**Note**	**Carrying amount**	**Fair value**			**Total fair value**
			Level 1	**Level 2**	**Level 3**	
Cash and current accounts with banks	7	10,163	-	-	10,163	10,163
Obligatory reserve with the Croatian National Bank	8	1,870	-	-	1,870	1,870
Financial assets at fair value through profit or loss						
Debt securities	9	387	387	-	-	387
Equity securities		-				
Derivative financial assets	9	79	79	-	-	79
Financial assets mandatorily at fair value through profit or loss						
Equity securities	9	24	3	21	-	24
Financial assets at option fair value through profit or loss						
Debt securities	9	221	159	62	-	221
Derivative financial instruments	9a	5	-	5	-	5
Placements with and loans to other banks	10	112	-	-	112	112
Loans and advances to customers	11	20,523	-	-	21,087	21,087
Investment securities at FVOCI						
Debt securities	12b	4,414	4,414	-	-	4,414
Equity securities	12b	11	3	1	7	11
Investment securities at amortised cost						
Debt securities	12a	2,180	2,183	-	-	2,183
Investments in subsidiaries	13	374	-	-	374	374
Other financial assets		41	-	-	41	41
		40,404	**7,149**	**168**	**33,654**	**40,971**
Financial liabilities at fair value through profit or loss	20	69	-	69	-	69
Deposits from banks	21	541	-	-	541	541
Deposits from companies and other similar entities	22	15,450	-	-	15,460	15,460
Deposits from individuals	23	17,371	-	-	17,370	17,370
Borrowings	24	448	-	-	469	469
Debt securities issued	25	978	1,142	-	-	1,142
Lease liabilities	15a	128	-	-	128	128
Other financial liabilities		150	-	-	150	150
Subordinated liabilities	28	529	-	-	544	544
		35,664	**1,142**	**69**	**34,662**	**35,873**

(all amounts are shown in HRK millions)

52. Fair value of financial instruments (continued)

Bank 2020	**Note**	**Carrying amount**		**Fair value**		**Total fair value**
			Level 1	**Level 2**	**Level 3**	
Cash and current accounts with banks	7	8,277	-	-	8,277	8,277
Obligatory reserve with the Croatian National Bank	8	1,598	-	-	1,598	1,598
Financial assets at fair value through profit or loss						
Financial assets for trading						
Debt securities	9	409	396	13	-	409
Equity securities		-	-	-	-	-
Derivative financial assets	9	157	-	157	-	157
Financial assets mandatorily at fair value through profit or loss						
Equity securities	9	19	-	19	-	19
Financial assets at optionfair value through profit or loss						
Debt securities	9	132	65	67	-	132
Placements with and loans to other banks	10	93	-	-	93	93
Loans and advances to customers	11	18,961	-	-	19,215	19,215
Investment securities at FVOCI						
Debt securities	12b	4,509	4,126	383	-	4,509
Equity securities	12b	10	7	1	2	10
Investment securities at amortised cost						
Debt securities	12a	1,418	1,418	-	-	1,418
Investments in subsidiaries	13	384	-	-	384	384
Other financial assets		33	-	-	33	33
		36,000	**6,012**	**640**	**29,602**	**36,254**
Financial liabilities at fair value through profit or loss	20	199	-	199	-	199
Deposits from banks	21	424	-	-	424	424
Deposits from companies and other similar entities	22	12,967	-	-	12,976	12,976
Deposits from individuals	23	15,361	-	-	15,364	15,364
Borrowings	24	2,066	-	-	2,156	2,156
Lease liabilities	15a	152	-	-	152	152
Other financial liabilities		159	-	-	159	159
Subordinated liabilities	28	531	-	-	557	557
		31,859	**-**	**199**	**31,788**	**31,987**

(all amounts are shown in HRK millions)

52. Fair value of financial instruments (continued)

The following table shows adjustment between initial and final balance for measurement of fair value in Level 3 within the hierarchy of fair values:

Group/Bank	*Trading instruments*	*Financial assets designated at fair value through profit or loss*	*Financial assets at fair value through other comprehensive income*
	Equity instruments	Debt securities issued by companies	Equity securities
At 1 January 2020	**-**	**-**	**2**
Gains and losses in other comprehensive income	-	-	-
At 31 December 2020	**-**	**-**	**2**
Gains and losses in other comprehensive income	-	-	5
Reclassification in level 3 from level 1	-	64	-
At 31 December 2021	**-**	**64**	**7**

Changes in financial assets are related to changes in market conditions that were primarily brought about by the COVID-19 and the oil crisis in global markets during 2020. The improvement in credit ratings affected the narrower credit spreads of Croatian government bonds. The change resulting from the Bank's internal decision is the reclassification of Optima Telekom bond from Level 3 assets to Level 2 assets.

Bank	**Komitent**	**Financial instrument**	**Fair value**	**Currency**	**Valuation Method**	**Significant valuation parameters not publicly available**
Non-trading financial assets mandatorily at fair value through profit or loss						
Equity instruments	FORTENOVA GROUP STAK STICHTING	AGRO1000271D	46,877	HRK	Expert opinion-> nominal price is EUR 1 and "market value" of 1 GDR is EUR 0.002	
Debt securities	FORTENOVA GROUP TOPCO B.V.	AGRO1000271C	192,242	HRK	Expert opinion-> nominal price is EUR 1 and "market value" of 1 convertible bond is EUR 0.002.	
Financial assets at fair value through other comprehensive income						
Equity instruments	SKDD D.D.	HRSDA0RA0007	52,991	HRK	Valuation is based on discounted CF based on median value for P/S, P/E and EV/EBITDA in comparison to fundamentals for SKK for last year with additional haircut for liquidity	P/E P/S EV/EBITDA liquidity haircut 21% private company haircut 10%
Equity instruments	HROK D.O.O.	HRUDIO000007	2,034,972	HRK	Valuation is based on discounted CF based on median velue for P/S, P/E and EV/EBITDA in comparison to fundamentals for HROK for last year with additional haircut for liquidity	P/E P/S EV/EBITDA liquidity haircut 21% private company haircut 10%

52. Fair value of financial instruments (continued)

During 2020 the Optima Telekom bond was reclassified from Level 3 asset to Level 2 asset. The reclassification decision was made on the basis of business indicators and certain stock market transactions.
In 2021, Erste Bank bond maturing in 2022 was reclassified from Level 2 to Level 1 as a result of regular price quotations on the Bloomberg service. Atlantic Grupa bond was reclassified from Level 1 to Level 2 due to illiquidity and a lack of regular price quotations on Bloomberg.

For securities classified in Level 3 assets, changes in valuation inputs that are not directly available would mean:

- Fortenova Group securities whose market value is based on expert judgment – given the impossibility of marketability of these securities, we consider that no changes at fair value are possible at this time. If they occur in the future, the Bank would achieve an increase in the value of these instruments as they are currently reduced to the minimum
- Securities valued on the basis of discounted amounts:
    - Increase in valuation inputs that are not directly available would mean a decrease in the fair value of the specific instrument
    - Decrease in valuation inputs that are not directly available would mean an increase in the fair value of the specific instrument

53. Capital management

From 1 January 2014 credit institutions in Croatia are obliged to calculate and report prudential requirements according to Capital Requirements Regulation (EU) No 575/2013 ("CRR"), Directive 2013/36/EU, implementing technical standards and other relevant regulations prescribed by European Banking Authority ("EBA") and local regulator, the Croatian National Bank ("CNB").

The Group's and the Bank's regulatory capital requirements are based on Basel III methodology.

The Group, in accordance with the regulatory requirements of CNB and EBA regulations, comprises Raiffeisenbank Austria and its subsidiaries that form a group of credit institutions. For the purpose of regulatory capital calculation the Group consists of: Raiffeisenbank Austria d.d., Raiffeisen stambena štedionica d.d, Raiffeisen Leasing d.o.o. and Raiffeisen Consulting d.o.o.. (2019: Raiffeisenbank Austria d.d., Raiffeisen stambena štedionica d.d, Raiffeisen Leasing d.o.o., Raiffeisen Consulting d.o.o.).

The regulatory capital of the Bank and the Group consists of Common Equity Tier 1 ("CET1"), Additional Tier 1 and Tier 2 ("T2") capital. CET1 includes ordinary shares and related share premium, retained earnings, reserves, deductions for intangible assets, fair value change of financial instruments at fair value through other comprehensive income and value adjustment for prudent valuations and goodwill from acquisition of 100% of stake in Raiffeisen Leasing d.o.o.. Additional Tier 1 capital is related to the issued bond without maturity. T2 capital includes qualifying subordinated liabilities.

Prescribed minimal capital ratios (in accordance with Article 92 of Regulation (EU) No. 575/2013) are:

- Common Equity Tier 1 capital ratio of 4.5% of the total risk exposure amount
- Tier 1 capital ratio of 6% of the total risk exposure amount
- Total capital ratio of 8% of the total risk exposure amount.

Additionally, in accordance with Article 129 and 133 of Directive 2013/36/EU and Articles 117 and 130 of CNB's Credit Institutions Act, the Group and the Bank are also obliged to maintain the following capital buffers:

- capital conservation buffer of 2.5% of the total risk exposure amount
- systemic risk buffer in the amount of 1.5% of the total risk exposure amount.
- other systemically important institution buffer in the amount of 2% of the total risk exposure amount.

The primary objective of the capital management strategy is to ensure that capital adequacy requirements are met at all times and that sufficient capital is available to support the bank's business strategy. The basis of the capital management strategy are the business plans of the Bank and the Group and risk appetite. Other important factors taken into account when managing the capital position are the expectations and requirements of external stakeholders (such as regulators, investors, shareholders, rating agencies).

The capital ratios of the Bank and the Group are continuously kept above the prescribed and defined rates. In addition to the minimum prescribed capital requirements under Pillar I (P1R), the Bank and the Group also maintain the capital requirements under Pillar II (P2R) defined by the regulator in the supervisory review and evaluation process (SREP), as well as all the prescribed capital buffers. In order to increase the resilience of the financial system and maintain financial stability in the Republic of Croatia, on 15 January 2021 the CNB Decision was adopted on a temporary restriction of profit distribution until 31.12.2021. Pursuant to this Decision, the Bank may not:

- make a dividend distribution or create an obligation related to dividend distribution
- redeem or purchase own shares or other capital instruments of the credit institution referred to in Article 26 paragraph 1 point (a) of Regulation (EU) No 575/2013
- make a repayment of the amounts paid up in connection with capital instruments referred to in Article 26 paragraph 1 point (a) of Regulation (EU) No 575/2013
- make a distribution of items referred to in Article 26 paragraph 1 points (b) to (f) of Regulation (EU) No 575/2013
- award variable remuneration to identified staff

and on 29 September 2021 CNB issued a Decision of repealing the Decision on a temporary restriction of distributions.

(all amounts are shown in HRK millions)

53. Capital management (continued)

Therefore, profits earned in 2020 remained undistributed. Profits earned in 2021 will be distributed in retained earnings in amount of HRK 301 milions, while the rest will be distributed for dividend payment.

Pursuant to the CNB Decision of 20 March 2020, the Bank distributed net profit earned in 2019 financial year net of allocation on AT1 instrument into retained earnings. This solution was the result of the CNB's reaction to the disruptions in the economy due to the coronavirus pandemic, with the aim of maintaining the security and stability of credit institutions and the financial stability of the system in general, further to the announcements by the European Banking Authority (EBA) and announcements of the European Central Bank.

	Group 2021	Group 2020	Bank 2021	Bank 2020
Regulatory capital				
Tier 1 capital				
Common Equity Tier 1 ("CET1") capital				
Issued share capital	3,621	3,621	3,621	3,621
Share premium	12	12	12	12
Retained earnings (excluding profit for the period)	819	708	563	456
Recognised profit	301	-	301	-
Legal, statutory and other reserves	181	181	173	173
Accumulated other comprehensive income	29	65	28	62
Deductions, in accordance with the CNB regulations				
Intangible assets	(215)	(202)	(212)	(199)
Value adjustment due to prudent valuations	(12)	(12)	(12)	(11)
Goodwill	(27)	(27)	-	-
Deductions for investments in banks and financial institutions	(23)	(23)	(23)	(23)
Insufficient coverage for non-performing exposures	(21)	-	(21)	-
Total Common Equity Tier 1 capital - unaudited	**4,665**	**4,323**	**4,430**	**4,091**
Additional TIER 1 capital - unaudited	**297**	**297**	**297**	**297**
Tier 2 capital - unaudited	**181**	**257**	**181**	**257**
Total Own Funds - unaudited	**5,143**	**4,877**	**4,908**	**4,645**
Total risk-weighted assets - unaudited	**22,589**	**20,647**	**19,537**	**19,544**
Hereof:				
Credit risk, counterparty and dilution risks and free deliveries	19,411	17,877	16,935	16,935
Position, foreing exchange and commodities risk	723	306	296	303
Operational risk	2,398	2,428	2,244	2,244
Credit valuation adjustment	57	36	62	62
Capital adequacy ratio - unaudited	**22.77%**	**23.62%**	**22.71%**	**23.77%**

In 2021, the capital adequacy ratio of the Group and the Bank was above the prescribed minimum.

54.Key business indicators

Key business indicators are given in table below:

HRK millions and %	**Group 2021**	**Bank 2021**	**Group 2020**	**Bank 2020**
Cost/income ratio	70.49%	59.08%	78.52%	64.18%
Cost/income ratio (including compulsory contributions)	61.21%	-	69.28%	-
Effective tax rate (ETR)	18.91%	17.16%	29.83%	23.70%
Loan/deposits ratio	64.54%	62.53%	69.45%	66.93%
Net interest margin	2.04%	2.01%	2.37%	2.37%
Non-performing exposure (NPE)	1,223	1,158	1,310	1,210
Non-performing loans (NPL)	1,223	1,158	1,310	1,210
Non-performing exposure ratio	2.36%	2.38%	2.79%	2.77%
Non-performing loans ratio	2.36%	2.38%	2.79%	2.77%
Non-performing exposure coverage ratio	60.02%	60.71%	63.05%	65.37%
Non-performing loans coverage ratio	60.02%	60.71%	63.05%	65.37%
Operating result	503	449	127	132
Operating income	2,084	1,349	2,202	1,276
Provisioning ratio*	0.27%	0.28%	0.44%	0.43%
Provisioning ratio (loans to customers)	0.34%	0.36%	0.98%	1.01%
Return on assets (ROA before tax)	1.44%	1.38%	0.47%	0.49%
Return on assets (ROA after tax)	1.19%	1.14%	0.33%	0.37%
Return on equity (ROE before tax)	12.36%	11.64%	3.85%	3.91%
Return on equity (ROE after tax)	10.22%	9.65%	2.57%	2.82%
Return on risk-adjusted capital (RORAC)	16.97%	-	4.56%	-
Common equity tier 1 ratio	20.66%	20.50%	20.94%	20.94%
Leverage ratio	11.10%	10.92%	11.05%	10.94%
Total risk-weighted assets (RWA)	22,589	21,609	20,647	19,544
Tier 1 ratio	21.97%	21.87%	22.38%	22.45%
Total capital ratio	22.77%	22.71%	23.62%	23.77%

*includes financial assets measured at amortized cost and financial assets at fair value through other comprehensive income

Cost/income ratio - is an economic metric and shows the company's costs in relation to its income. The ratio gives a clear view of operational efficiency. Banks use the cost/income ratio as an efficiency measure for steering the bank and for easily comparing its efficiency with other financial institutions. General administrative expenses in relation to operating income are calculated for the cost/income ratio. General administrative expenses comprise staff expenses, other administrative expenses and depreciation/amortization of intangible and tangible fixed assets. Operating income comprises net interest income, dividend income, current income from investments in associates, net fee and commission income, net trading income and fair value result,net gains/losses from hedge accounting and other net operating income.

Effective tax rate (ETR) - relation of income tax expense to profit before tax. The effective tax rate differs from the company´s jurisdictional tax rate due to many accounting factors and enables a better comparison among companies. The effective tax rate of a company is the average rate at which its pre-tax profits are taxed. It is calculated by dividing total tax expense (income taxes) by profit before tax.

54.Key business indicators (continued)

Loan/deposits ratio - indicates a bank's ability to refinance its loans by deposits rather than wholesale funding. It is calculated with loans to non-financial corporations and households in relation to deposits from non-financial corporations and households.

Net interest margin - is used for external comparison with other banks as well as an internal profitability measurement of products and segments. It is calculated with net interest income set in relation to average interest-bearing assets (total assets less investments in subsidiaries and associates, tangible fixed assets, intangible fixed assets, tax assets and other assets).

Non-performing exposure (NPE) - contains all non-performing loans and debt securities according to the applicable definition of the EBA document Implementing Technical Standards (ITS) on Supervisory Reporting (Forbearance and non-performing exposures).

Non-performing loans (NPL) - contains all non-performing loans according to the applicable definition of the EBA document Implementing Technical Standards (ITS) on Supervisory Reporting (Forbearance and non-performing exposures).

NPE ratio - is an economic ratio to demonstrate the proportion of non-performing loans and debt securities in relation to the entire loan portfolio of customers and banks, and debt securities. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management.

NPL ratio - is an economic ratio to demonstrate the proportion of non-performing loans in relation to the entire loan portfolio to customers and banks. The ratio reflects the quality of the loan portfolio of the bank and provides an indicator for the performance of the bank's credit risk management.

NPE coverage ratio - describes to which extent, non-performing loans and debt securities have been covered by impairments (Stage 3) thus expressing also the ability of a bank to absorb losses from its NPE. It is calculated with impairment losses on loans to customers and banks and on debt securities set in relation to non-performing loans to customers and banks and debt securities.

NPL coverage ratio - describes to which extent non-performing loans have been covered by impairments (Stage 3) thus expressing also the ability of a bank to absorb losses from its NPL. It is calculated with impairment losses on loans to customers and banks set in relation to non-performing loans to customers and banks.

Operating result - is used to describe the operative performance of a bank for the reporting period. It consists of operating income less general administrative expenses.

Operating income - is primarily income components of the ongoing business operations (before impairment). It comprises net interest income, dividend income, current income from investments in associates, net fee and commission income, net trading income and fair value result, net gains/losses from hedge accounting and other net operating income.

Provisioning ratio - is an indicator for development of risk costs and provisioning policy of an enterprise. It is computed by dividing impairment or reversal of impairment on financial assets by average amount of financial assets measured at amortized cost and financial assets at fair value through other comprehensive income.

Provisioning ratio (loans to customers) - is an indicator for development of risk costs and provisioning policy of an enterprise. It is computed by dividing impairment or reversal of impairment on financial assets (loans to customers) by average amount of customer loans (category: loans and advances to customers).

Return on assets (ROA before / after tax) - is a profitability ratio and measures how efficiently a company can manage its assets to produce profits during a period. It is computed by dividing profit before tax/after tax by average assets.

Return on equity (ROE before / after tax) - provides a profitability measure for both management and investors by expressing the profit for the period as presented in the income statement as a percentage of the respective underlying (either equity or total asset). Return on equity demonstrates the profitability of the bank on the capital invested by its shareholders and thus the success of their investment. Return on equity is a useful measure to easily compare the profitability of a bank with other financial institutions.

54.Key business indicators (continued)

Return on equity (ROE before / after tax) (continued)

Return on the total equity including non-controlling interests, i.e. profit before tax respectively after tax in relation to average equity on the statement of financial position. Average equity is calculated on month-end figures including non-controlling interests and does not include current year profit.

Return on risk-adjusted capital (RORAC) - ratio of a risk-adjusted performance management and shows the yield on the risk adjusted capital (economic capital). The return on risk-adjusted capital is computed by dividing consolidated profit by the risk adjusted capital (i.e. average economic capital). This capital requirement is calculated within the economic capital model for credit, market and operational risk.

Common equity tier 1 ratio - Common equity tier 1 as a percentage of total risk-weighted assets (RWA) according to CRR/CRD IV regulation.

Leverage ratio -The ratio of tier 1 capital to all exposures on and off the statement of financial position insofar as they are not deducted when determining the capital measurand. The calculation is in accordance with the methodology set out in CRD IV.

Total risk-weighted assets (RWA) -Risk-weighted assets (credit risk, CVA risk) including market risk and operational risk.

Tier 1 ratio - Tier 1 capital to total risk-weighted assets (RWA).

Total capital ratio - Total capital as a percentage of total risk-weighted assets (RWA).

55. Events after reporting period

In January 2022, the Raiffeisen Capital Management (RCM) as a member of the RBI Group took over 100% ownership of Raiffeisen Invest d.o.o. from Raiffeisenbank Austria d.d. Zagreb. The takeover was carried out as part of the RBI Group-level asset management optimization process.

On the basis of the request of the Supreme Court of the Republic of Croatia, before the European Court of Justice (ECJ) there are preliminary ruling proceedings to determine the compliance of loan conversions from CHF to EUR, which conversions were executed on the basis of the provisions of the Act on Consumer Lending (OG 102/2015), with the European legal framework.

On the basis of the expected decision of the European Court of Justice, the bank cannot assess the impact on the individual litigations it faces or could face in the future.

Intensified geopolitical tensions in the East of Europe escalated on 24 February 2022 with the invasion of the Armed Forces of the Russian Federation of the Ukraine territory. Economic sanctions of all European Union members and of numerous world countries ensued against Russia, and countermeasures were imposed against the countries implementing the above sanctions. The Bank is fully in compliance with the European Union sanctions regime and it applies restrictions on all transactions that fall within the scope of the sanctions in its business. Further, on the Group level, it adheres to the sanctions imposed by the United States of America and the United Kingdom in all business dealings for which the mentioned sanction regimes are relevant.

There are two fundamental areas in which the war and the economic sanctions can impact the Bank:

1. Military operations in Ukraine directly impact institutions which are active or exposed in Ukraine. They affect the Bank's operations with clients who have business interests in the war-affected regions. The war causes reduction of goods production and exports from the war-affected areas, and this reduction indirectly impacts the supply and price of goods in the importing markets.
2. Economic sanctions against Russia and countermeasures resulted in a drastic drop in the exchange with Russia, in freezing of investment and capital flows, and in lowered credit rating of both the country and of companies from Russia. The direct hit on the Bank comes from clients with a significant portion of exchange in the sanctioned market on the one hand, as well as from the impact of business continuity of companies with a significant interest in the regions hit by the sanctions on the other.

The Bank analysed the portfolio to the effect of determining the commercial or ownership connection with the war-torn or sanctions-affected areas, whereby a total of four groups of connected persons were identified with credit exposure in the amount of 2% of the overall portfolio of corporate customers.

According to the Bank's analysis, these clients either have sales to Russia or Ukraine of over 30% of their overall turnover (as per 2021 figures) or depend on supply from Russia or Ukraine in over 30%.

With respect to the identified customers, assigning of the PWO status (*Pre-Workout*) was initiated, which caused their consequential transfer to Stage 2 risk class due to the activation of the qualitative criterion of increased credit risk.

Economic sanctions and countermeasures separate markets, which intensifies disruptions in energy and raw materials supply along with considerable rise in prices. Price increases do not affect the Bank's expenses significantly, but uncertainty rose among the Bank's clients, both among manufacturers as well as among consumers, which can impact the placement risk profile over the future period. The Bank conducted stress testing according to several scenarios for energy price rise and interest costs increase. On the basis of analysed scenarios, enhanced monitoring as well as extraordinary credit risk analysis were initiated with respect to corporate customers for whom high sensitivity was identified in connection to debt repayment (*Debt Service Coverage ratio*). This can lead to formation of additional risk provisions in the coming periods.

55. Events after reporting period (continued)

The war of Russia against Ukraine and the associated economic sanctions against Russia intensified the uncertainty concerning the availability and price of goods and capital in the global markets. Volatility in financial markets increased along with economic activity slowing down, which then affected the overall banking business. In the light of the unfavourable market shifts, the Bank introduced preventive monitoring of key indicators that affect liquidity position to minimize any potential adverse effects that may arise. At the end of February 2022, liquidity coverage ratio (LCR) of the Bank was 202%, compared to the minimal regulatory requirement of 100%.

As well as the other EU markets, the Croatian market is exposed to various kinds of *cyber* activities, but there is no specific correlation to the Bank. The latest systems and tools provide for successful detection and prevention of cyber-attacks. The Bank acts with due care and actively communicates with clients to increase the awareness of cyber-security.

Its high level of liquidity and capitalisation allowed the Bank to overcome the initial shock from the war in Ukraine through enhanced activities of business monitoring.
The Bank Management Board cannot forecast future events in the war-torn areas and thus they also cannot evaluate the depth and duration of restrictions in trading of goods, services and capital with the direct and indirect participants of the war as they also cannot assess the impact on demand for financial products and services. In the environment of heightened uncertainty, the Bank carefully supervises alterations in the liquidity of financial markets and movements in the Bank's portfolios. If necessary, business continuity measures will be implemented to maintain operating stability.

56. Approval of the financial statements

Financial statements for Bank and Group and Annual Report of RBA Group are approved by the Management Board of the Bank on March 31, 2022.

Signed on behalf of Raiffeisenbank Austria d.d.

Liana Keserić
President of the Management Board

Georg Feldscher
Member of the Management Board

Višnja Božinović
Member of the Management Board

Ante Odak
Member of the Management Board

(all amounts are shown in HRK millions)

Pursuant to the Croatian Accounting Law (Official Gazette 78/15, 134/15, 120/16, 116/18, , 42/2020 and 47/2020)) the Croatian National Bank issued the Decision on the Structure and Content of Annual Financial Statements of Credit Institutions (Official Gazette 42/18, 122/2020 and119/2021)). The following tables present financial statements (schedules) prepared in accordance to the above mentioned Decisions.

Statement of financial position (Balance sheet) - unaudited		**Group 2021**	**Group 2020**
Assets			
1.	Cash and cash equivalents, central bank receivables and other demand deposits (from 2 to 4)	10,222	8,308
2.	*Cash in hand*	1,514	1,401
3.	*Cash receivables and liabilities at central banks*	8,573	6,744
4.	*Other demand deposits*	135	163
5.	Financial assets for trading (from 6 to 9)	460	551
6.	*Derivatives*	70	142
7.	*Equity instruments*	3	-
8.	*Debt securities*	387	409
9.	*Loans and advances*	-	-
10.	Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)	21	19
11.	*Equity instruments*	21	19
12.	*Debt securities*	-	-
13.	*Loans and advances*	-	-
14.	Financial assets at fair value through profit or loss (15+16)	221	132
15.	*Debt securities*	221	132
16.	*Loans and advances*	-	-
17.	Financial assets at fair value through other comprehensive income (from 18 to 20)	4,600	4,741
18.	*Equity instruments*	11	10
19.	*Debt securities*	4,589	4,731
20.	*Loans and advances*	-	-
21.	Financial assets at amortised cost (22 + 23)	25,794	23,382
22.	*Debt securities*	2,235	1,475
23.	*Loans and advances*	23,559	21,907
24.	Derivatives – hedge accounting	5	-
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	11	18
26.	Investments in subsidiaries, joint ventures and associates	272	268
27.	Tangible assets	896	994
28.	Intangible assets	398	345
29.	Tax assets	59	107
30.	Other assets	102	101
31.	Non-current assets and disposal groups classified as held for sale	60	5
32.	**TOTAL ASSETS (1. + 5. + 10. + 14. + 17. + 21. + from 24. to 31.)**	**43,121**	**38,971**

(all amounts are shown in HRK millions)

Statement of financial position (Balance sheet) - unaudited (continued)

		Group 2021	Group 2020
Liabilities			
33.	Financial liabilities for trading (from 34 to 38)	59	175
34.	*Derivatives*	59	175
35.	*Short positions*	-	-
36.	*Depostis*	-	-
37.	*Debt securities issued*	-	-
38.	*Other financial liabilities*	-	-
39.	Financial liabilities designated at fair value through profit or loss (from 40 to 42)	-	-
40.	*Depostis*	-	-
41.	*Debt securities issued*	-	-
42.	*Other financial liabilities*	-	-
43.	Financial liabilities at amortised cost (from 44 to 46)	36,788	33,170
44.	*Deposits*	35,611	32,941
45.	*Debt securities issued*	978	-
46.	*Other financial liabilities*	199	229
47.	Derivatives – Hedge accounting	10	23
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	599	477
50.	Tax liabilities	80	-
51.	Share capital repayable on demand	-	-
52.	Other liabilities	122	115
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33. + 39. + 43. + from 47. to 53.)**	**37,658**	**33,960**
Equity			
55.	Share capital	3,621	3,621
56.	Share premium	12	12
57.	Other equity instruments issued other than capital	297	297
58.	Other equity	-	-
59.	Accumulated other comprehensive income	29	65
60.	Retained earnings	820	708
61.	Revaluation reserves	-	-
62.	Other reserves	181	181
63.	(-) Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	503	127
65.	(-) Interim dividends	-	-
66.	Minority interests (Non-controlling interests)	-	-
67.	**TOTAL EQUITY (from 55. to 66.)**	**5,463**	**5,011**
68.	**TOTAL LIABILITIES AND EQUITY (54. + 67.)**	**43,121**	**38,971**

(all amounts are shown in HRK millions)

Statement of financial position (Balance sheet) - unaudited (continued)		Bank 2021	Bank 2020
Assets			
1.	Cash and cash equivalents, central bank receivables and other demand deposits (from 2 to 4)	10,222	8,308
2.	*Cash in hand*	1,514	1,401
3.	*Cash receivables and liabilities at central banks*	8,573	6,744
4.	*Other demand deposits*	135	163
5.	Financial assets for trading (from 6 to 9)	469	566
6.	*Derivatives*	79	157
7.	*Equity instruments*	3	-
8.	*Debt securities*	387	409
9.	*Loans and advances*	-	-
10.	Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)	58	56
11.	*Equity instruments*	21	19
12.	*Debt securities*	-	-
13.	*Loans and advances*	37	37
14.	Financial assets at fair value through profit or loss (15+16)	221	132
15.	*Debt securities*	221	132
16.	*Loans and advances*	-	-
17.	Financial assets at fair value through other comprehensive income (from 18 to 20)	4,425	4,520
18.	*Equity instruments*	11	10
19.	*Debt securities*	4,414	4,510
20.	*Loans and advances*	-	-
21.	Financial assets at amortised cost (22 + 23)	24,614	22,020
22.	*Debt securities*	2,180	1,420
23.	*Loans and advances*	22,434	20,600
24.	Derivatives – hedge accounting	5	-
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	11	18
26.	Investments in subsidiaries, joint ventures and associates	374	384
27.	Tangible assets	602	678
28.	Intangible assets	368	314
29.	Tax assets	49	91
30.	Other assets	86	83
31.	Non-current assets and disposal groups classified as held for sale	58	-
32.	**TOTAL ASSETS (1. + 5. + 10. + 14. + 17. + 21. + from 24. to 31.)**	**41,562**	**37,170**

(all amounts are shown in HRK millions)

Statement of financial position (Balance sheet) – unaudited (continued)		**Bank 2021**	**Bank 2020**
Liabilities			
33.	Financial liabilities for trading (from 34 to 38)	59	176
34.	*Derivatives*	59	176
35.	*Short positions*	-	-
36.	*Depostis*	-	-
37.	*Debt securities issued*	-	-
38.	*Other financial liabilities*	-	-
39.	Financial liabilities designated at fair value through profit or loss (from 40 to 42)	-	-
40.	*Depostis*	-	-
41.	*Debt securities issued*	-	-
42.	*Other financial liabilities*	-	-
43.	Financial liabilities at amortised cost (from 44 to 46)	35,595	31,673
44.	*Deposits*	34,340	31,348
45.	*Debt securities issued*	978	-
46.	*Other financial liabilities*	277	325
47.	Derivatives – Hedge accounting	10	23
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	579	459
50.	Tax liabilities	80	-
51.	Share capital repayable on demand	-	-
52.	Other liabilities	96	86
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33. + 39. + 43. + from 47. to 53.)**	**36,419**	**32,417**
Equity			
55.	Share capital	3,621	3,621
56.	Share premium	12	12
57.	Other equity instruments issued other than capital	297	297
58.	Other equity	-	-
59.	Accumulated other comprehensive income	28	63
60.	Retained earnings	563	456
61.	Revaluation reserves	-	-
62.	Other reserves	173	172
63.	(-) Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	449	132
65.	(-) Interim dividends	-	-
66.	Minority interests (Non-controlling interests)	-	-
67.	**TOTAL EQUITY (from 55. to 66.)**	**5,143**	**4,753**
68.	**TOTAL LIABILITIES AND EQUITY (54. + 67.)**	**41,562**	**37,170**

(all amounts are shown in HRK millions)

Income Statement - unaudited		**Group 2021**	**Group 2020**
1.	Interest income	895	941
2.	(Interest expense)	(92)	(102)
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	51	56
5.	Fee and commission income	717	511
6.	(Fee and commission expense)	(385)	(255)
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	1	(11)
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	225	91
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	1	6
10.	Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	(3)	1
11.	Gains or (-) losses from hedge accounting, net	-	(1)
12.	Exchange differences [gain or (-) loss], net	(41)	29
13.	Gains or (-) losses on derecognition of investment in subsidiaries, joint ventures and associates, net	-	10
14.	Gains or (-) losses upon derecognition of non-financial assets, net	(4)	
15.	Other operating income	100	85
16.	(Other operating expense)	(36)	(15)
17.	**TOTAL OPERATING INCOME, NET (1. to 16.)**	**1,429**	**1,346**
18.	(Administrative expense)	(672)	(699)
19.	(Cash contributions to resolution funds and deposit guarantee schemes)	(23)	(66)
20.	(Depreciation)	(132)	(141)
21.	Modification gains or (-) losses, net	1	8
22.	(Provisions or (-) reversal of provisions)	(122)	(132)
23.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	109	(150)
24.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates))	-	-
25.	(Impairment or (-) reversal of impairment on non-financial assets)	-	-
26.	Negative goodwill recognised in profit or loss	-	-
27.	Share of the profit or (-) loss of investments in subsidaries, joint ventures and associates accounted for using the equity method	14	4
28.	Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	1	(2)
29.	**PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS (17. to 28.)**	**605**	**168**
30.	(Tax expense or (-) income related to profit or loss from continuing operations)	(102)	(41)
31.	**PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS (29. - 30.)**	**503**	**127**
32.	**Profit or (-) loss after tax from discontinued operations (33. – 34.)**	**-**	**-**
33.	**Profit or (-) loss before tax from discontinued operations**	**-**	**-**
34.	**(Tax expense or (-) income related to discontinued operations)**	**-**	**-**
35.	**PROFIT OR (-) LOSS FOR THE YEAR (31.+32.;36.+37)**	**503**	**127**
36.	Attributable to minority interest [non-controlling interests]	-	-
37.	Attributable to owners of the parent	503	127

(all amounts are shown in HRK millions)

Statement of comprehensive income - unaudited		Group 2021	Group 2020
1.	**Profit or (-) loss for the year**	**502**	**127**
2.	Other comprehensive income (3. + 15.)	(37)	(43)
3.	***Items that will not be reclassified to profit or loss (from 4. to 10. + 13 + 14)***	**2**	**(24)**
4.	*Tangible assets*	-	-
5.	*Intangible assets*	-	-
6.	*Actuarial gains or (-) losses on defined benefit pension plans*	-	-
7.	*Non-current assets and disposal groups held for sale*	-	-
8.	*Shareof other recognised income and expense of entities accounted for using the equity method*	-	-
9.	*Fair value changes of equity instruments measured at fair value through other comprehensive income*	1	(25)
10.	*Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net*	-	-
11.	*Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)*	-	-
12.	*Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)*	-	-
13.	*Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk*	-	-
14.	*Income tax relating to items that will not be reclassified*	1	1
15.	***Items that may be reclassified to profit of loss (from 16. to 23.)***	**(39)**	**(19)**
16.	*Hedges of net investments in foreign operations (effective portion)*	-	-
17.	*Foreign currency exchange*	-	-
18.	*Reserve for Cash flow hedges effective (portion)*	-	-
19.	*Hedging instruments (not designated elements)*	-	-
20.	*Debt instruments at fair value through other comprehensive Income*	(43)	(18)
21.	*Non-current assets and disposal groups held for sale*	-	-
22.	*Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates*	-	-
23.	*Income tax relating to items that may be reclassifies to profit or (-) loss*	4	(1)
24.	**Total comprehensive income for the year (1 + 2; 25 + 26)**	**465**	**84**
25.	Attributable to minority interest (non-controlling interest)	-	-
26.	Attributable to owners of the parent	465	84

(all amounts are shown in HRK millions)

Income statement - unaudited

		Bank 2021	Bank 2020
1.	Interest income	837	876
2.	(Interest expense)	(78)	(78)
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	51	56
5.	Fee and commission income	714	509
6.	(Fee and commission expense)	(384)	(254)
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	1	(11)
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	220	98
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	1	6
10.	Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	(4)	1
11.	Gains or (-) losses from hedge accounting, net	-	(1)
12.	Exchange differences [gain or (-) loss], net	(43)	30
13.	Gains or (-) losses on derecognition of investment in subsidiaries, joint ventures and associates, net	-	
14.	Gains or (-) losses on derecognition of non-financial assets, net	(2)	11
15.	Other operating income	29	27
16.	(Other operating expense)	35	(14)
17.	**TOTAL OPERATING INCOME, NET (1. to 16.)**	**1,307**	**1,256**
18.	(Administrative expense)	(612)	(641)
19.	(Cash contributions to resolution funds and deposit guarantee schemes)	(23)	(63)
20.	(Depreciation)	(116)	(111)
21.	Modification gains or (-) losses, net	1	9
22.	(Provisions or (-) reversal of provisions)	(120)	(132)
23.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	107	(145)
24.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates))	(2)	-
25.	(Impairment or (-) reversal of impairment on non-financial assets)	-	-
26.	Negative goodwill recognised in profit or loss	-	-
27.	Share of the profit or (-) loss of investments in subsidaries, joint ventures and associates accounted for using the equity method	-	-
28.	Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-
29.	**PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS (17. to 28.)**	**542**	**173**
30.	(Tax expense or (-) income related to profit or loss from continuing operations)	93	(41)
31.	**PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS (29. -30.)**	**449**	**132**
32.	**Profit or (-) loss after tax from discontinued operations (33. – 34.)**	-	-
33.	Profit or (-) loss before tax from discontinued operations	-	-
34.	(Tax expense or (-) income related to discontinued operations)	-	-
35.	**PROFIT OR (-) LOSS FOR THE YEAR (31. + 32.; 36. – 37.)**	**449**	**132**
36.	Attributable to minority interest [non-controlling interests]	-	-
37.	Attributable to owners of the parent	449	132

(all amounts are shown in HRK millions)

Statement of comprehensive income - unaudited

		Bank 2021	Bank 2020
1.	**Profit or (-) loss for the year**	**449**	**132**
2.	Other comprehensive income (3. + 15.)	(35)	(41)
3.	**Items that will not be reclassified to profit or loss (from 4. to 10. + 13. + 14.)**	**2**	**(24)**
4.	*Tangible assets*	-	-
5.	*Intangible assets*	-	-
6.	*Actuarial gains or (-) losses on defined benefit pension plans*	-	-
7.	*Non-current assets and disposal groups held for sale*	-	-
8.	*Share of other recognised income and expense of entities accounted for using the equity method*	-	-
9.	*Fair value changes of equity instruments measured at fair value through other comprehensive income*	1	(25)
10.	*Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net*	-	-
11.	*Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)*	-	-
12.	*Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)*	-	-
13.	*Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk*	-	-
14.	*Income tax relating to items that will not be reclassified*	1	1
15.	**Items that may be reclassified to profit of loss (from 16 to 23)**	**(37)**	**(17)**
16.	*Hedges of net investments in foreign operations (effective portion)*	-	-
17.	*Foreign currency translation*	-	-
18.	*Cash flow hedges (effective portion)*	-	-
19.	*Hedging instruments (not designated elements)*	-	-
20.	*Debt instruments at fair value through other comprehensive Income*	(41)	(16)
21.	*Non-current assets and disposal groups held for sale*	-	-
22.	*Share of other recognised income and expense of investments in subsidiaries, joint ventures and associates*	-	-
23.	*Income tax relating to items that may be reclassifies to profit or (-) loss*	4	(1)
24.	**Total comprehensive income for the year (1 + 2; 25 + 26)**	**414**	**91**
25.	Attributable to minority interest (non-controlling interest)	-	-
26.	Attributable to owners of the parent	414	91

(all amounts are shown in HRK millions)

Statement of cash flows – indirect method

		Group 2021	Group 2020
	Operating activities under indirect method		
9.	Profit/(loss) before tax	**603**	**168**
	Adjustments:		
10.	Impairment losses	13	307
11.	Depreciation and amortization	132	141
12.	Unrealised (gains)/losses on securities at fair value through profit or loss	(53)	11
13.	(Gains)/losses from sale of tangible assets	0	-
14.	Other non cash items	(813)	(916)
	Changes in assets and liabilities due to operating activities		
15.	Deposits with the Croatian National Bank		-
16.	Deposits with banking institutions and loans to financial institutions	14	(11)
17.	Loans and advances to other clients	(1,600)	(81)
18.	Securities and other financial instruments at fair value through other comprehensive income		-
19.	Securities and other financial instruments held for trading	143	26
20.	Securities and other financial instruments at fair value through profit or loss which are not actively traded	(104)	(21)
21.	Securities and other financial instruments mandatorily at FVTPL	(3)	(19)
22.	Securities and other financial instruments at amortized cost	-	-
23.	Other assets from operating activities	63	80
24.	Deposits from financial institutions	2	(906)
25.	Transaction accounts of other clients	5,280	2,986
26.	Savings deposits of other clients		-
27.	Time deposits of other clients	(1,043)	(340)
28.	Derivative financial liabilities and other traded liabilities	(131)	118
29.	Other liabilities	(6)	(50)
30.	Interest received	883	830
31.	Dividend received		-
32.	Interest paid	(79)	(102)
33.	(Income tax paid)	(7)	(11)
34.	**Net inflow/(outflow) of cash from operating activities (from 1. to 33.)**	**3,294**	**2,210**
	Investing activities		
35.	Cash receipts from/(payments to acquire) tangible and intangible assets	(148)	(156)
36.	Cash receipts from the disposal of/(payments for the investment in) subsidiaries, associates and joint ventures		-
37.	Cash receipts from sales of/(cash payments to acquire) securities and other investment securities	(577)	(291)
38.	Dividends received	51	56
39.	Other receipts/(payments) from investing activities	99	98
40.	**Net cash flow from investing activities (from 35. to 39.)**	**(575)**	**(293)**
	Financing activities		
41.	Net increase/(decrease) in loans received from financing activities	(1,751)	815
42.	Net increase/(decrease) of debt securities issued	975	-
43.	Net increase/(decrease) of Tier 2 capital instruments		-
44.	Increase of share capital		-
45.	(Dividends paid)		-
46.	Other receipts/(payments) from financing activities	(69)	(57)
47.	**Net cash flow from financing activities (from 41. to 46.)**	**(845)**	**758**
48.	**Net increase/(decrease) in cash and cash equivalents (34. + 40. + 47.)**	1,874	2,675
49.	**Cash and cash equivalents at the beginning of the year**	**8,308**	**5,638**
50.	Effect of foreign exchange differences on cash and cash equivalents	40	(5)
51.	**Cash and cash equivalents at the end of the year (48. + 49. + 50.)**	**10,222**	**8,308**

(all amounts are shown in HRK millions)

Statement of cash flows – indirect method - unaudited		Bank 2021	Bank 2020
	Operating activities under indirect method		
9.	Profit/(loss) before tax	**542**	**173**
	Adjustments:		
10.	Impairment losses	13	302
11.	Depreciation and amortization	116	111
12.	Unrealised (gains)/losses on securities at fair value through profit or loss	(61)	11
13.	(Gains)/losses from sale of tangible assets	0	-
14.	Other non cash items	(766)	(891)
	Changes in assets and liabilities due to operating activities		
15.	Deposits with the Croatian National Bank		-
16.	Deposits with banking institutions and loans to financial institutions	(1)	(4)
17.	Loans and advances to other clients	(1,805)	(200)
18.	Securities and other financial instruments at fair value through other comprehensive income	-	-
19.	Securities and other financial instruments held for trading	142	32
20.	Securities and other financial instruments at fair value through profit or loss which are not actively traded	(94)	(23)
21.	Securities and other financial instruments mandatorily at FVTPL	1	(18)
22.	Securities and other financial instruments at amortized cost	-	-
23.	Other assets from operating activities	32	73
24.	Deposits from financial institutions	99	(881)
25.	Transaction accounts of other clients	5,278	2,997
26.	Savings deposits of other clients	-	-
27.	Time deposits of other clients	(925)	(295)
28.	Derivative financial liabilities and other traded liabilities	(132)	119
29.	Other liabilities	(14)	(38)
30.	Interest received	862	815
31.	Dividend received	-	-
32.	Interest paid	(62)	(68)
33.	(Income tax paid)	-	(4)
34.	**Net inflow/(outflow) of cash from operating activities (from 1. to 33.)**	**3,225**	**2,211**
	Investing activities		
35.	Cash receipts from/(payments to acquire) tangible and intangible assets	(143)	(157)
36.	Cash receipts from the disposal of/(payments for the investment in) subsidiaries, associates and joint ventures		-
37.	Cash receipts from sales of/(cash payments to acquire) securities and other investment securities	(617)	(336)
38.	Dividends received	51	56
39.	Other receipts/(payments) from investing activities	51	-
40.	**Net cash flow from investing activities (from 35. to 39.)**	**(658)**	**(437)**
	Financing activities		
41.	Net increase/(decrease) in loans received from financing activities	(1,618)	994
42.	Net increase/(decrease) of debt securities issued	975	-
43.	Net increase/(decrease) of Tier 2 capital instruments		-
44.	Increase of share capital		-
45.	(Dividends paid)		-
46.	Other receipts/(payments) from financing activities	(50)	(69)
47.	**Net cash flow from financing activities (from 41. to 46.)**	**(693)**	**925**
48.	**Net increase/(decrease) in cash and cash equivalents (34. + 40. + 47.)**	1,874	2,699
49.	**Cash and cash equivalents at the beginning of the year**	**8,308**	**5,614**
50.	Effect of foreign exchange differences on cash and cash equivalents	40	(5)
51.	**Cash and cash equivalents at the end of the year (48. + 49. + 50.)**	**10,222**	**8,308**

Statement of changes in equity

	Group 2021 All amounts in HRK million)	Share capital	Share premium	Equity instruments issued other than share capial	Other items of equity	Accumula-ted other comprehen-sive income	Retained earnings	Revalu ation reserves	Other reserves	Treasury shares	Profit or (-) loss attributable to owners of the parent	Interim divi-dends	Non-controlling interest: Accumu-lated other comprehen-sive income	Non-controlling interest: Other items	Total
1.	**Opening balance [before restatement]**	**3,621**	**12**	**-**	**297**	**65**	**708**	**-**	**181**	**-**	**127**	**-**	**-**	**-**	**5,011**
2.	Correction of errors	-	-	-	-	-	-	-	-		-	-	-	-	-
3.	Changes of accounting policies	-	-	-	-	-	-	-	-		-	-	-	-	-
4.	**Opening balance [current period] (1 + 2 + 3)**	**3,621**	**12**	**-**	**297**	**65**	**708**	**-**	**181**	**-**	**127**	**-**	**-**	**-**	**5,011**
5.	Issuance of ordinary shares														
6.	Issuance of preference shares														
7.	Issuance of other equity instruments														
8.	Exercise of expiration of other equity instruments issued														
9.	Conversion of debt to equity														
10.	Capital reduction														
11.	Dividends														
12.	Purchase of treasury shares														
13.	Sale or cancelattion of treasury shares														
14.	Reclassification of financial instruments from equity to liability														
15.	Reclassification of financial instruments from liability to equity														
16.	Transfer between components of owner's instruments						99		-		(127)				(28)
17.	Equity increase or (-) decrease resulting from business combination														
18.	Share based payments														
19.	Other increase or (–) decrease of owner's instruments					-	13		-						13
20.	Total comprehensive income for the year					(36)	-				503				467
21.	**Closing balance [current period] (from 4 to 20)**	**3,621**	**12**	**-**	**297**	**29**	**820**		**181**		**503**				**5,463**

Statement of changes in equity - unaudited

	Bank 2021 (All amounts in HRK million)	Share capital	Share premium	Equity instruments issued other than share capial	Other equity instruments	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	Treasury shares	Profit or (-) loss attributable to owners of the parent	Interim dividends	Non-controlling interest: Accumulated other comprehensive income	Non-controlling interest: Other items	Total
1.	**Opening balance [before restatement]**	**3,621**	**12**	**-**	**297**	**63**	**456**	**-**	**172**	**-**	**132**	**-**	**-**	**-**	**4,753**
2.	Correction of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.	Changes of accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.	**Opening balance [current period] (1 + 2 + 3)**	**3,621**	**12**	**-**	**297**	**63**	**456**	**-**	**172**	**-**	**132**	**-**	**-**	**-**	**4,753**
5.	Issuance of ordinary shares	-	-	-	-	-	-	-	-		-	-	-	-	-
6.	Issuance of preference shares	-	-	-	-	-	-	-	-		-	-	-	-	-
7.	Issuance of other equity instruments	-	-	-	-	-	-	-	-		-	-	-	-	-
8.	Exercise of expiration of other equity instruments issued	-	-	-	-	-	-	-	-		-	-	-	-	-
9.	Conversion of debt to equity	-	-	-	-	-	-	-	-		-	-	-	-	-
10.	Capital reduction	-	-	-	-	-	-	-	-		-	-	-	-	-
11.	Dividends	-	-	-	-	-	-	-	-		-	-	-	-	-
12.	Purchase of treasury shares	-	-	-	-	-	-	-	-		-	-	-	-	-
13.	Sale or cancelattion of treasury shares	-	-	-	-	-	-	-	-		-	-	-	-	-
14.	Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-		-	-	-	-	-
15.	Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-		-	-	-	-	-
16.	Transfer between components of owner's instruments	-	-	-	-		104	-	-		(132)	-	-	-	(28)
17.	Equity increase or (-) decrease resulting from business combination	-	-	-	-	-	-	-	-		-	-	-	-	-
18.	Share based payments	-	-	-	-	-	-	-	-		-	-	-	-	-
19.	Other increase or (–) decrease of owner's instruments						3		1						4
20.	Total comprehensive income for the year	-	-	-	-	(35)	-	-	-		449	-	-	-	414
21.	**Closing balance [current period] (from 4 to 20)**	**3,621**	**12**	**-**	**297**	**28**	**563**	**-**	**173**	**-**	**449**	**-**	**-**	**-**	**5,143**

Statement of changes in equity - unaudited

	Group 2020 All amounts in HRK million)	Share capital	Share premium	Equity instruments issued other than share capial	Other equity instruments	Accumulated other comprehensive income	Retained earnings	Revaluation reserves	Other reserves	Treasury shares	Profit or (-) loss attributable to owners of the parent	Interim dividends	Non-controlling interest: Accumulated other comprehensive income	Non-controlling interest: Other items	Total
1.	**Opening balance [before restatement]**	**3,621**	**12**	**-**	**297**	**110**	**299**	**-**	**192**	**-**	**421**	**-**	**-**	**-**	**4,952**
2.	Correction of errors	-	-	-	-	-	-	-	-		-	-	-	-	-
3.	Changes of accounting policies	-	-	-	-	-	-	-	-		-	-	-	-	-
4.	**Opening balance [current period] (1 + 2 + 3)**	**3,621**	**12**	**-**	**297**	**110**	**299**	**-**	**192**	**-**	**421**	**-**	**-**	**-**	**4,952**
5.	Issuance of ordinary shares														
6.	Issuance of preference shares														
7.	Issuance of other equity instruments														
8.	Exercise of expiration of other equity instruments issued														
9.	Conversion of debt to equity														
10.	Capital reduction														
11.	Dividends														
12.	Purchase of treasury shares														
13.	Sale or cancelattion of treasury shares														
14.	Reclassification of financial instruments from equity to liability														
15.	Reclassification of financial instruments from liability to equity														
16.	Transfer between components of owner's instruments						386		-		(421)				(35)
17.	Equity increase or (-) decrease resulting from business combination														
18.	Share based payments														
19.	Other increase or (–) decrease of owner's instruments					-	23		(11)						12
20.	Total comprehensive income for the year					(45)	-				127				82
21.	**Closing balance [current period] (from 4 to 20)**	**3,621**	**12**	**-**	**297**	**65**	**708**		**181**		**127**				**5,011**

Statement of changes in equity - unaudited

	Bank 2020 (All amounts in HRK million)	**Share capital**	**Share premium**	**Equity instruments issued other than share capial**	**Other equity instruments**	**Accumulated other comprehensive income**	**Retained earnings**	**Revaluation reserves**	**Other reserves**	**Treasury shares**	**Profit or (-) loss attributable to owners of the parent**	**Interim dividends**	**Non-controlling interest: Accumulated other comprehensive income**	**Non-controlling interest: Other items**	**Total**
1.	**Opening balance [before restatement]**	**3,621**	**12**	**-**	**297**	**104**	**29**	**-**	**185**		**438**	**-**	**-**	**-**	**4,686**
2.	Correction of errors	-	-	-	-	-	-	-	-		-	-	-	-	-
3.	Changes of accounting policies	-	-	-	-	-	-	-	-		-	-	-	-	-
4.	**Opening balance [current period] (1 + 2 + 3)**	**3,621**	**12**	**-**	**297**	**104**	**29**	**-**	**185**		**438**	**-**	**-**	**-**	**4,686**
5.	Issuance of ordinary shares	-	-	-	-	-	-	-	-		-	-	-	-	-
6.	Issuance of preference shares	-	-	-	-	-	-	-	-		-	-	-	-	-
7.	Issuance of other equity instruments	-	-	-	-	-	-	-	-		-	-	-	-	-
8.	Exercise of expiration of other equity instruments issued	-	-	-	-	-	-	-	-		-	-	-	-	-
9.	Conversion of debt to equity	-	-	-	-	-	-	-	-		-	-	-	-	-
10.	Capital reduction	-	-	-	-	-	-	-	-		-	-	-	-	-
11.	Dividends	-	-	-	-	-	-	-	-		-	-	-	-	-
12.	Purchase of treasury shares	-	-	-	-	-	-	-	-		-	-	-	-	-
13.	Sale or cancelattion of treasury shares	-	-	-	-	-	-	-	-		-	-	-	-	-
14.	Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-		-	-	-	-	-
15.	Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-		-	-	-	-	-
16.	Transfer between components of owner's instruments						403				(438)				(35)
17.	Equity increase or (-) decrease resulting from business combination	-	-	-	-	-	-	-	-		-	-	-	-	-
18.	Share based payments	-	-	-	-	-	-	-	-		-	-	-	-	-
19.	Other increase or (–) decrease of owner's instruments						-		(13)						(13)
20.	Total comprehensive income for the year					(41)	24				132				115
21.	**Closing balance [current period] (from 4 to 20)**	**3,621**	**12**	**-**	**297**	**63**	**456**	**-**	**172**	**-**	**132**	**-**	**-**	**-**	**4,753**

Statement of financial position

- The difference in total assets and total liabilities relates to other consolidating companies, which, according to the CNB Decision, are consolidated according to the equity method.

- Differences in the presentation of individual positions of financial assets in the statement of financial position according to the statutory requirements for accounting of banks in the Republic of Croatia and the schedules prepared according to the CNB Decision arise from the current technical capabilities of IT systems for the calculation of provisions for Stage 1 and Stage 2. Overall provisions for expected credit losses are identical, but their allocations across individual items are different.

- In statements under the CNB Decision, guarantee deposits and credit line are presented under position “Other demand deposits” and in in the statement under the statutory requirements for accounting of banks in the Republic of Croatia they are presented within position “Financial assets measured at amortised cost”.

- Positions „Obligatory reserve with the Croatian National Bank“, „Placements and loans to other banks“ „Loans and advances to customers“ and „Investment securities measured at amortized cost“ are disclosed separately in the statement prepared according to statutory requirements for accounting of banks in the Republic of Croatia, whereas, in the reports according to the CNB Decision they are presented under "Financial assets at amortised cost”. Furthermore, in the statements under the CNB Decision the item "Financial assets at amortised cost" includes fees and other amounts stated at amortized cost, whereas in the report prepared according to statutory requirements for accounting of banks in the Republic of Croatia this amount is stated under "Other assets".

- Position "Financial assets at fair value through profit or loss" is disclosed as one category in the statement prepared according to statutory requirements for accounting of banks in the Republic of Croatia, while the reports under the CNB Decision separately present the items "Financial assets held for trading”, “Financial assets at fair value through profit or loss ” and “Non-trading financial assets mandatorily at fair value through profit or loss”.

- Items "Right of use assets" and "Property, plant, equipment and real estate investments" in the statement according to statutory requirements for accounting of banks in the Republic of Croatia are presented separately, while in the reports according to the CNB Decision they are stated as category "Tangible assets".

- Items "Deposits from banks", "Deposits from companies and other similar entities", "Deposits from individuals", “Borrowings” and “Subordinated liabilities” are presented separately in the statement according to statutory requirements for accounting of banks in the Republic of Croatia, whereas in the statements according to the CNB Decision they are presented as one category "Financial liabilities at amortised cost"

- In the schedules according to the CNB Decision, other long-term benefits for employees are stated in the item "Provisions", while in the report according to statutory requirements for accounting of banks in the Republic of Croatia they are reported within item "Other liabilities".

Income statement

- In the statement prepared according to legal requirements for accounting of banks in the Republic of Croatia, changes in contractual cash flows are disclosed in Interest income, while according to the CNB Decision they are presented in Modification gains or losses".

- Dividend income stated in the schedules prepared in accordance with the CNB Decision was generated from the company which is not fully consolidated under the CNB Decision, whereas it must be consolidated and consequently eliminated under the statutory accounting requirements for banks in the Republic of Croatia.
- According to legal requirements for accounting for banks in the Republic of Croatia, income and expense from the sale of tangible assets reduced the item "Other operating expenses", while in the reports according to the CNB Decision they were shown under the item " Gains or (-) losses on derecognition of non-financial assets, net".

- According to legal requirements for accounting for banks in the Republic of Croatia, gains net of losses on foreign exchange trading are reported in „Net gain on trading and foreign exchange differences from translation of monetary assets and liabilities", whereas in the schedules prepared according to the CNB Decision they are stated within „Gains or (-) losses on financial assets and liabilities held for trading, net".

- Items "Administrative expenses", "Depreciation", "Other operating expenses" and "Cash contributions to resolution funds and deposit guarantee schemes" in the statement prepared according to the CNB Decision are disclosed separately, while in the report according to the statutory requirements for accounting of banks in the Republic of Croatia they are presented in category "Operating expenses".

- In the schedules prepared in accordance with the CNB Decision, income from previous period interest written down is reported in „(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)", whereas in the statements according to legal requirements for accounting for banks in the Republic of Croatia they increase the item „Interest income".

Statement of changes in equity

- Item Other reserves in the statement prepared according to the CNB Decision consists of the capital and legal reserves, and in the statement prepared according to the statutory requirements for accounting of banks in the Republic of Croatia, these items are disclosed separately.

Statement of cash flows

- The difference between the positions of Statement of cash flows on a consolidated basis relates to companies that are not part of prudential consolidation, which are consolidated using the equity method.