Raiffeisenbank Austria d.d.

Annual report
for the year ended 31 December 2022

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

CONTENTS

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 2022 Annual Report as audited by Deloitte, the international firm of auditors.

Last year, the Bank generated profit after tax of HRK 279 million, while the profit at the local Group level was HRK 337 million. The results were realized in conditions of pronounced inflationary pressures and heightened geopolitical tensions. At the end of year, Croatia joined the European Monetary Union and introduced the euro as its official currency.

The prevailing optimism on financial markets at the beginning of year soon subsided. The Russian Federation's attack on Ukraine in February resulted in the suspension of trade with companies from war areas. The introduction of sanctions by the European Union against the aggressor has expanded the area with disabled trade. As a result, companies with a significant share of procurement or sales in these areas are faced with a sudden change in operations and, consequently, with the lowered ability to repay financial obligations.

The decrease of confidence in the ability to adapt to the disruption of economic relations was also transmitted to financial institutions. Due to the significant investments of our parent institution in the Russian Federation and Ukraine, the beginning of war shook the confidence of our clients in the operations of Bank. At the transition from February to March, customer deposits decreased, but the Bank's liquidity was not threatened. Confidence in the stability of Bank's operations was soon restored, and the realized growth of deposits in the second half of year was at the market level.

The severance of economic ties further increased inflationary pressures. The response of monetary policy to persistent price growth followed in the second half of year. The European Central Bank has increased the key interest rate on four occasions. Since the date of Croatia's entry into the European Monetary Union was determined in July, the monetary policy measures of the Croatian National Bank were aligned with the policy of the European Central Bank, so any change in the Euro area was transmitted to the financial market in Croatia.
As a result of tightening conditions on the financial markets, the economic growth slowed down. The growth achieved in the first three quarters enabled the continuation of the tendency to reduce the average riskiness of clients. Interest rates on loans started to increase under the pressure of rising market interest rates in the last quarter. However, the harmonization of regulation for the operations of credit institutions with the Euro area released additional liquidity and postponed the increase in interest rates on deposits. Consequently, the offer of interest rates on loans did not fully follow market changes. Therefore, the positive impact of changes in market interest rates on interest income on the one side, as well as the negative impact on the risk classification of clients on the other, was reduced. The 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. Additionally, adjustments in the support system related to the introduction of euro at the end of year resulted in a one-time increase in costs. The growing inflation was also reflected in the increase in deposits, i.e. in the reduction of deposit insurance coverage ratio. Therefore, in two quarters during the year, the Bank had the obligation to pay the insurance premium, which further increased operating costs.

Risk provisions reflect the best value assessment of financial assets. The general tendency of growth in business activities had a positive effect on the risk classification of clients, and the increase in the cost of financing due to the change in direction of monetary policy acted in the direction of increasing risk with a negative impact on the Bank's business results. 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 62 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 the growing uncertainty in conditions of increased price growth and slowing economic growth. 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 a negative return was achieved in the previous year due to the increase in market interest rates. 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 the 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

Report of the Supervisory Board

Ladies and Gentlemen,

The year 2022 was a challenging one for the business operations of Raiffeisenbank Austria d.d. Zagreb. 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 were adapted to the changes in market conditions and the demand from clients. 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. The second half of year was spent in the preparation for the introduction of euro as the official currency. On New Year's Eve, the operational support system was adjusted, which enabled the continuation of services to clients at the beginning of next year.

In 2022, members of the Supervisory Board held 4 ordinary and 17 extraordinary meetings. The overall attendance rate for Supervisory Board meetings in the financial year 2022 was around 100 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 2022, the Supervisory Board discussed the following specific and/or important topics:

- RBA financial results and risk profile
- requirements related to the introduction of the euro as well as the implementation of the euro introduction project
- the impact of the war in Ukraine on the operations of the Bank
- macroeconomic expectations and inflationary pressures
- business model of Raiffeisen pension insurance company and the recapitalization requirement
- implementation and improvement of the anti-money laundering process
- status of fulfilment of capital and MREL requirements
- regulatory supervision activities of the CNB/ECB
- strategic business model activities

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, the last before the introduction of euro as the official currency, we 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

As of 2023, Croatia has joined the euro area with the introduction of the euro as the official currency, and it has also become a new Schengen member. The previous year was marked by final preparations for the introduction of the euro and Croatia's entry into the area of free movement without border controls. Already at the end of the first half of the year, the certainty of completing the monetary integration was anticipated in the perception of Croatian risk, which resulted in improvement of the credit rating of the Republic of Croatia.

The process of euro area integration was completed in a period of unfavourable developments in the environment. The beginning of the year was marked by growing inflationary pressures on the supply side due to disruptions in the relationship between supply and demand on the global markets of goods, production materials and raw materials, which strengthened after the post-pandemic opening of the economies. The return of demand to pre-pandemic levels was accelerated by fiscal aid to support economic growth recovery. On the other hand, the disruption in supply chains due to the pandemic shutdown weakened production and supply, and the restoration of transport to pre-pandemic levels lagged behind the increase in demand. Additionally, the Russian Federation launched an aggression against Ukraine in February, and this was followed by the introduction of economic sanctions by the European Union and its allies against the Russian Federation. As a result, the purchase of energy products and raw materials from sanctioned suppliers was reduced, which increased inflationary pressures on the energy market within the European Union.

Fiscal policy measures were adjusted to the changes. Measures to preserve operations of the companies affected by closures, which were introduced during the pandemic period, were replaced by measures to encourage investment and economic growth in the opening period. However, in the previous year, there was a significant increase in prices on the energy market. Therefore, fiscal incentives were redirected towards neutralizing the negative impacts of increased energy prices on production and consumption.
On the monetary policy side, Croatia joined the euro area in 2023, so during 2022 the decisions of the Croatian National Bank were synchronized with the measures of the European Central Bank (ECB). Therefore, monetary policy measures in the euro area were decisive for monetary movements on the financial markets in Croatia.
During 2022, monetary authorities in the euro area made a turn from an expansionary direction in the monetary policy, towards a restrictive direction with an adverse impact on the financing of production and consumption. In 2021, the use of the *Next Generation EU* (NGEU) financial instrument began. The instrument was created in the period after the economic closure with the aim to accelerate recovery of the economy after the decline caused by measures to contain the pandemic. In the period from the beginning of the pandemic in 2020 to the end of 2026, EU members can use approved funds from this instrument to finance projects eligible per the prescribed conditions. From this instrument, non-refundable grants and loans with financing costs that are more favourable than the conditions on the financial markets are available to the members. By using these funds, investments increase, which stimulates the demand for investment goods and services, which consequently raises prices at the producers. Through growth of employment and consumer income, the demand for consumer goods and services also increases indirectly, and ultimately this stimulates the growth of consumer prices. Croatia is quite successful in this process so far and has withdrawn 40.3% of the total planned allocation of 5.5 billion. euro.

In the conditions of significant liquidity surpluses on the financial markets after several years of relaxed monetary policy measures, the implementation of fiscal measures to stimulate economic growth resulted in strengthening of inflationary pressures. With relaxed financing from fiscal sources and the available European financial instruments, the fight against inflation depended on the willingness of the monetary policy to implement restrictive measures to reduce the money supply and increase the cost of financing. With the aim of curbing inflationary pressures, the European Central Bank (hereinafter referred to as the ECB) started increasing the key interest rate in July. This ended the multiannual period of using the supply of cheap money to stimulate economic growth and began the period of more expensive borrowing with the effect of slowing down the economic activity.

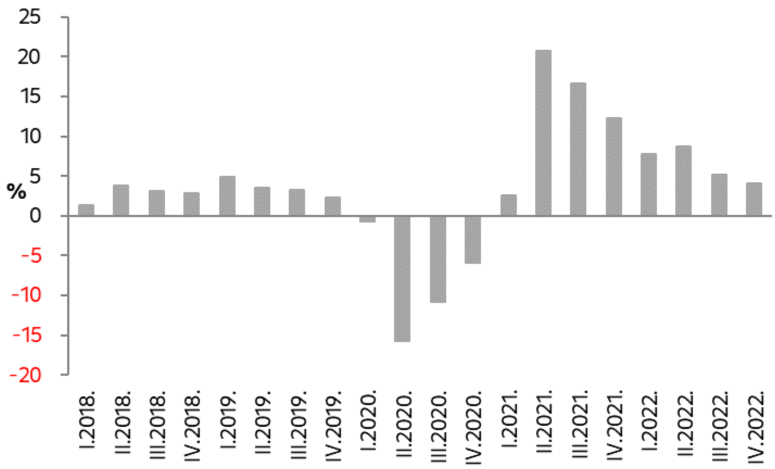
In Croatia, the economic growth dynamics achieved in the period after the opening was carried over to 2022. During the year, unfavourable trends in terms of exchange with foreign countries and the growth of financing prices increased due to a significant increase in the prices of energy and raw materials, and the negative impact was intensified due to the escalation of the war in Ukraine.

Macroeconomic environment (continued)

In the first half of the year, growth projections based on a temporary increase in prices due to interruptions in supply chains still prevailed, but in the second half of the year it became clear that inflation will not be contained without a strong change in money supply. With the increase in the cost of financing towards the year end, economic activities slowed down, and the first indicators on the movement of industrial production and retail trade in the last months of 2022 entered negative territory.

The free movement of population strengthened the demand for travel-related services, which had a favourable effect on growth rates in economies predominantly focused on the supply of services, such as Croatia. The escalation of the war in Ukraine, the intensification of geopolitical tensions and increased inflation did not affect the demand for tourist trips to Croatia significantly. Considerable growth was achieved in the indicators of the number of tourist arrivals and overnight stays, as well as income from the indirect export of services.

Gross domestic product, real growth rates, in %



Sources: CBS, Raiffeisen Research

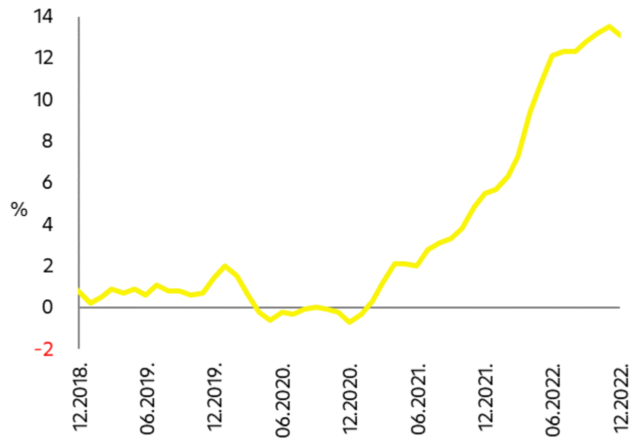
A highly euroized domestic financial system is significantly dependent on developments in the euro area. The ECB interest rates remained at historically low levels until the end of the first half of 2022. The interest rate on overnight deposit with the ECB was -0.5 percent, and the interest rate on main refinancing operations was 0.0 percent. However, borrowing prices on the financial markets began to rise, and thus market participants anticipated the inevitability of a turn towards a restrictive monetary policy in conditions of growing inflationary pressures. The expected turn in the monetary policy followed in the second half of the year. On four occasions, the ECB increased the interest rate on main refinancing operations, which reached 2.5% at the end of the year, while the interest rate on deposits was increased to 2.0%, with an upward tendency in the following year as well. The tightening of monetary policy should also take place through the policy of managing or reducing the ECB balance sheet. In the previous year, programs for the purchase of securities, which created additional liquidity during the period of monetary easing, were stopped. However, the withdrawal of liquidity through the collection of overdue securities without the possibility of refinancing, as well as the sale of the ECB's portfolio, still did not start in the previous year.

Movements on the external financial markets spill over to the capital markets in Croatia. In the middle of the year, all three leading agencies anticipated Croatia's entry into the euro area by raising its credit rating. According to two agencies (Fitch and S&P), Croatia is at the highest level of the adequate credit quality class (BBB+). Moody's returned the investment level, so Croatia is suitable for investment even for more strictly regulated investors such as the European pension funds. Positive changes in the credit rating were incorporated into the prices of financial instruments during the period of unfavourable developments on the financial markets, so they had the effect of mitigating the increase in the borrowing cost for Croatian issues. Although mitigated, the rise in interest rates in the euro area increased the cost of financing.

Macroeconomic environment (continued)

Influenced by the interest rate rise on the financial markets, the cost of financing in the budget of the Republic of Croatia increased with each refinancing of the debt due.

Consumer price index (inflation rate), annual changes in %



Sources: CBS, Raiffeisen Research

In the Croatian financial market, excess liquidity increased further in view of the introduction of the euro due to the harmonization of bank liquidity regulation with the ECB. In the first half of the year, banks allocated 9 percent of the funding source to maintain the reserve requirement. Since August, the rate has been reduced to 5 percent, and in December it was lowered to 1 percent. The minimum required foreign currency receivables amounted to 17 percent of the amount of foreign currency liabilities until August, when they were reduced to 8.5 percent. At the end of the year, this regulation was abolished.

Excess liquidity in the financial system slowed down the spillover of the market interest rate increases to the cost of banks' funding sources, and subsequently to loan interest rates. The yield on time deposits still does not depart from the yield on demand deposits. Due to the unattractiveness of the yield on time deposits, a significant number of clients do not renew their contracts when the term expires. As a result, non-term sources of financing prevail in banks, which open a gap in the maturity structure of banks' balance sheets. The supply of loans in the Croatian market was greater than the demand, so the pressure to maintain interest rates on newly approved loans at reduced levels prevailed.

- Macroeconomic indicators

Real GDP growth of 6.3 percent achieved in 2022 was led by services exports, personal consumption and investment. In the tourist season, there was an increase in overnight stays and even stronger revenue growth. The first signs of a slowdown in the economy were noticed in the indicators recorded in September, and were strengthening towards the end of the year. The slowdown in personal consumption was due to high inflation along with falling real wages. High inflation perceptions reduced consumer optimism, which lingered at relatively low levels. Private sector investments were burdened by a high level of uncertainty and a likely rise in borrowing costs, but the growth of public sector investments financed by European funds mitigated adverse developments. Croatia has at its disposal unspent funds from the last financial envelope, the funding from the Recovery and Resilience Facility and a new financial envelope of the Multiannual Financial Framework. The total potential is more than 5% of GDP.

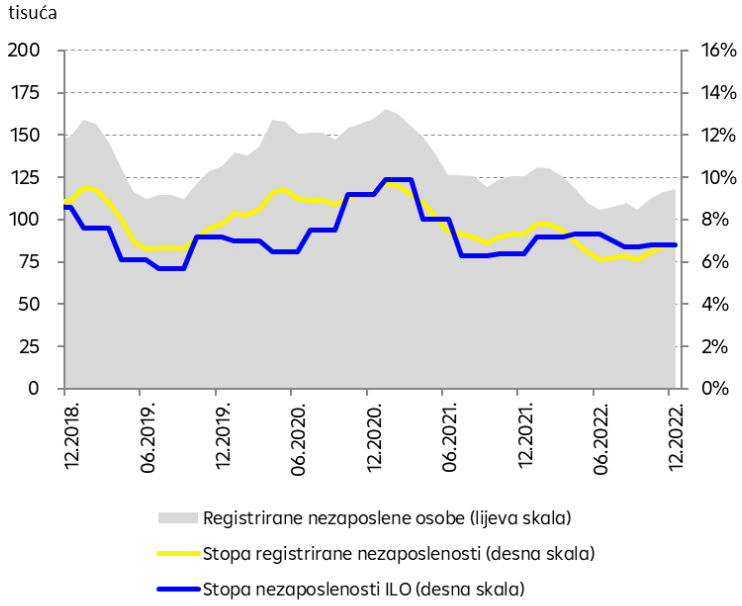
Macroeconomic environment (continued)

The use of funds from the NGEU financial instrument depends on the fulfilment of reform measures under the national Recovery and Resilience Facility (RRF). Croatia's recovery and resilience plan includes reform measures and key investments that are planned to be implemented by the end of 2026. Through pre-financing and the first installment, EUR 1.52 billion were advanced to Croatia based on fulfilled reform indicators in 2021. A key component for the withdrawal of the second tranche was focused on fiscal decentralization. In September 2022, Croatia sent a request for the withdrawal of a second tranche of EUR 700 million, which was approved by the European Commission, and the funds were disbursed in December 2022. By the end of 2022, health and education-related requirements, which are a condition for the disbursement of the third tranche, were also met.

The annual inflation rate measured by the consumer price index in Croatia was 10.8 percent in 2022. The average growth rate of core inflation, which does not include prices of energy, food, beverages and tobacco, was 6.8 percent higher than in 2021. General inflation entered the double-digit realm in June with a tendency to accelerate towards the end of the year. This trend was particularly pronounced in core inflation, as the monthly price decline and the year-on-year slowdown at the general rate were predominantly due to lower prices of petroleum products towards the end of the year due to positive developments in crude oil markets and administrative price regulation. As for the general inflation rate, during the year, the contribution of energy prices decreased and the contribution of food, which is the most significant consumer basket component, increased. Observed at the level of the whole of 2022, the largest contribution to the general growth of consumer prices came from the rise in prices of food and soft beverages, and then from energy.

The labor market has proven resilient to adverse economic and geopolitical developments. During 2022, the registered unemployment rate dropped to a historic low of 6.8%, with continued employment growth. The number of insured persons at the Croatian Pension Insurance Institution (HZMO) was on average 2.5% higher compared to the previous year, surpassing by 3.5% the indicator from 2019. Almost a quarter of the growth in the average number of employees over the last year was achieved in the accommodation and food service activities, as a result of strong demand in tourism-related activities. A solid contribution also came from the increase in employment in the manufacturing industry, information and telecommunications, construction and professional, scientific and technical activities. The decline in employment levels continued in financial activities where the negative trend has persisted since 2015. The labor market is facing the problem of labor shortages. The structural mismatch of supply and demand is further reinforced by the growth achieved in the construction sector, which is increasingly filling the additional labor demand in external markets. The number of applications for hiring staff from third countries in 2022 exceeded the average number of registered unemployed persons.

Registered unemployed persons, unemployment rate

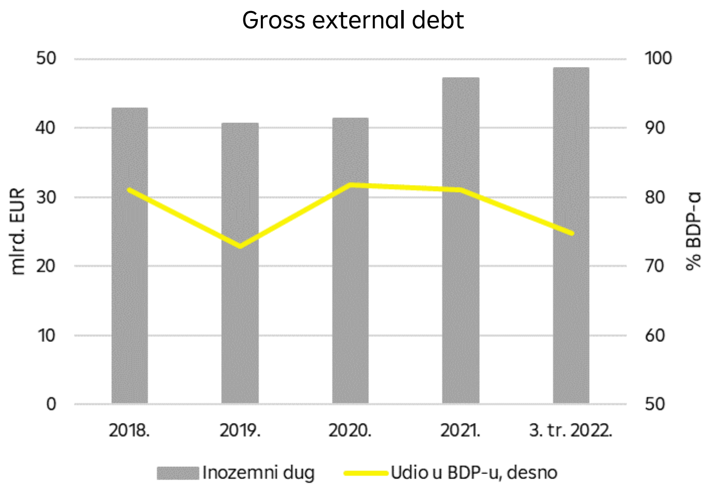


Sources: CSB, CES, Raiffeisen Research

Macroeconomic environment (continued)

The current account balance of payments maintained a positive balance despite the pronounced negative developments in foreign exchange terms. There was an increase in the surplus in the services account, and in the exchange of goods with foreign countries, the deficit increased due to the marked growth of net energy imports under the pressure of increased prices on the world market. The rise in the prices of imported energy products and raw materials increased the value of imports without full compensation in the price of exported goods. Furthermore, the realized growth of the economy results in an increase in personal and investment spending reflected in the real growth of imported goods. Thanks to the increase in net exports of services, especially the strong growth in revenues from tourist consumption of non-residents, adverse developments in trade in goods have been almost entirely mitigated. The positive current account balance is also supported by the growing net inflows from personal remittances sent by the increasing number of economic emigrants, as well as the growing utilization of EU funds. Operating in the opposite direction are net payments of income from capital generated by companies owned by non-residents.

High liquidity of the financial system resulted in a sufficient supply of loans for potential borrowers from the private sector. Excess liquidity pushed financing prices at historically low levels, while rising inflationary was strengthening the pressure in the opposite direction. The growth of the economy stimulated the demand for financing working capital and investments, but with excess liquidity in the domestic financial market, there was no pressure on private sector borrowing abroad, both by financial institutions and companies. The adoption of the euro in Croatia certainly allows the elimination of currency risk, and thus enables more favorable borrowing. Thanks to strong nominal GDP growth, gross external debt relative to GDP, as a relative indicator of external indebtedness, continued to decline towards the level of 70 percent of GDP during the year.



Sources: CNB, Raiffeisen Research

- Fiscal and monetary developments

Due to the growth of the economy and consumer prices, state budget inflows increased. Tourist spending achieved in the successful tourist season made a significant contribution to the stability of public finances, which lead to further narrowing the general budget deficit in 2022. Thanks to the strong growth in economic activity, the government debt ratio also improved during 2022. General government debt stood at 70.4% of GDP at the end of the third quarter. On the revenue side of the budget, indirect tax revenues (VAT and excise duties) increased, reflecting consumption trends, and they carry over the impact of consumer price growth on budget revenues. Income from social contributions reflects developments in the employment figure and achieved wage growth.

Macroeconomic environment (continued)

On the other hand, tightening financing conditions raise interest rates and bond market yields, which increases the government funding cost. The strong increase in euro area government bond yields was a result of inflation reaching double-digit rates. The ECB's reaction to rising inflation was expectedly decisive. At the end of 2022, the ECB was not yet finished with either the process of raising interest rates or its balance sheet reduction. Therefore, upwards pressure on the movement of yields is rather pronounced.

Following the accession to the euro area, Croatia became an EGB (European Government Bonds) issuer. Accordingly, during the summer of 2022, following the final confirmation of the adoption of the euro, the spreads of Croatian Eurobonds (CROATI EUR segment) further converged with the yields of the benchmark bond issue, so that the act of accepting the euro did not significantly affect the developments. Due to the ECB policy change, Croatian Eurobond yields first rose sharply, only to stabilize at an elevated level in line with EGB developments.

Monetary policy remained committed to maintaining the stability of the exchange rate of the kuna against the euro during 2022. In the middle of the year, the fixed conversion rate of the kuna to the euro was confirmed to stand at 7.5345 at year-end. As a highly euroized financial market, the changeover to the euro has no significant impact on financing prices. Already in the middle of the year, interest rates on kuna loans moved closer to the level of interest rates on loans in euro, so the changeover took place without affecting any significant changes in the credit margin.

Macroeconomic environment (continued)

Summary of macroeconomic indicators for the period from 2018 to 2022

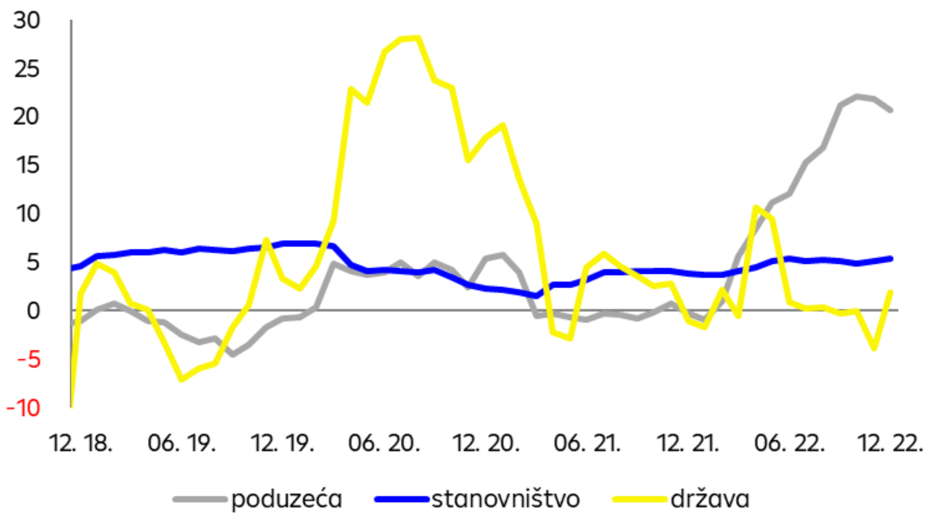
	2022	2021	2020	2019	2018
GDP & production					
Gross Domestic Product, % (constant prices)	6.3	13.1	-8.6	3.4	2.8
GDP at current prices (EUR millions)	67,390	58,207	50,451	54,784	51,933
GDP per capita (EUR)	17,486	15,006	12,464	13,476	12,704
Retail trade, % real annual changes	2.1	12.0	-5.2	3.8	4.0
Industrial production, % annual changes	1.6	6.5	-3.3	0.6	-0.7
Prices, Employment and Budget					
Consumer Prices, %, end of period	13.1	5.5	-0.7	1.4	0.8
%, average	10.8	2.6	0.1	0.8	1.5
Producer Prices, %, end of period	19.9	19.6	-1.3	1.5	0.6
%, average	26.4	9.5	-2.1	0.8	2.3
Unemployment rate (official rate, avg)	6.8	8.0	8.9	7.7	9.2
Unemployment rate (ILO, avg)	7.1	7.6	7.5	6.6	8.4
Average net wage, in EUR avg *	1,015	946	898	857	828
General Government Balance, % of GDP [1]	-1.8 (e)	-2.8	-7.3	0.2	0.0
Public Debt, EUR billion [1]	47.1 (e)	45.6	43.9	38.9	38.0
Publi Debt, % of GDP [1]	70.3 (e)	78.4	87.0	71.0	73.2
Balance of Payment and External Debt					
Goods and Services Exports, EUR million	23,963	18,379	14,900	15,227	14,543
% change	30.4	23.3	-2.1	4.7	3.8
Goods and Services Imports, EUR million	41,570	28,396	22,918	24,981	23,748
% change	46.4	23.9	-8.3	5.2	8.5
Current Account Balance, % of GDP	-1.2 (e)	1.8	-0.5	2.9	1.8
Official International Reserves, EUR million, eop	27,877	25,022	18,943	18,560	17,438
Official International Reserves, in terms of months of imports of goods and services, eop	8.3 (e)	9.8	9.3	7.8	7.9
Foreign Direct Investment, EUR million [2]	3,300 (e)	3,902	1,111	3,508	1,081
Tourism – night stays, % change	28.5	72.1	-55.3	1.8	4.0
External debt, EUR billion	48.5 (e)	47.2	41.3	40.6	42.8
External debt, as % of GDP	72.3 (e)	81.1	81.8	74.1	82.4
External debt, as % export of goods and services	119.8 (e)	162.2	197.0	144.0	164.2
Monetary and Financial Data					
Exchange rate, eop, EUR / USD	1.07	1.14	1.22	1.12	1.15
avg, EUR / USD	1.05	1.18	1.14	1.12	1.18
Exchange rate, eop, EUR / HRK	7.53	7.52	7.54	7.44	7.42
avg, EUR / HRK	7.53	7.52	7.53	7.41	7.41
Money (M1), HRK billion, eop	207.1	189.4	160.5	137.2	120.0
% change	9.4	18.0	17.0	14.3	20.7
Broadest money (M4), HRK billion, eop	437.1	403.3	364.5	333.3	324.0
% change	8.4	10.7	9.3	2.9	5.5
Credits, HRK billion eop	269.0	245.8	238.5	229.5	223.2
% change	9.5	3.0	3.9	2.8	2.0
Treasury bills rate 12m, %, avg	0.14	0.02	0.06	0.08	0.09

1 ESA 2010 methodology
2 including circular investments
eop – end of period, avg – period average
e – estimate by RBA Economic and Financial Research

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 assessed as other systemically important credit institution. By total assets, the Bank was ranked fifth in the market at the end of 2022 with an eight percent market share. The bank also has subordinate financial institutions for leasing activities, pension funds management company and pension insurance company. Those financial institutions are significant for the local market. Raiffeisen stambena štedionica was acquired by the bank in May 2022.

Annual growth rate of bank loans by client segments, in %



Sources: CNB, Raiffeisen Research

A period of accelerated economic growth and heightened inflationary pressures over the past year has boosted loan demand. Growth was more pronounced in businesses than in consumers. As for consumers, the growth of home loans was driven by government subsidies for repayment of home loans for younger age groups. Additionally, the rise in prices in the real estate market increased the amounts needed to buy apartments, and thus indirectly boosted the demand for housing loans.

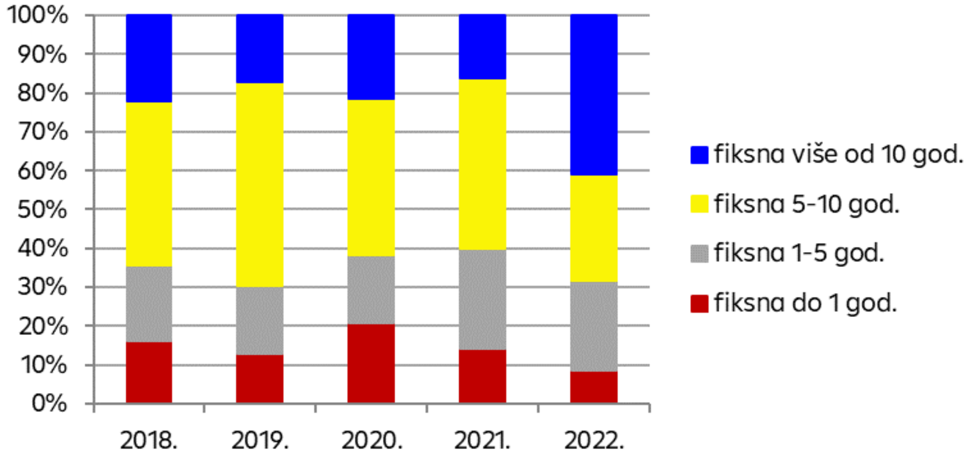
The strong rise in prices of energy and raw materials has increased the demand of companies for procurement loans. Borrowing for working capital financing of companies is adjusted to business levels, and, with the pronounced inflationary pressures, the impact of the price of input components on the demand for loans in relation to changes in business volume increases. Rising interest rates, together with the expected effect on reducing demand for goods and services, reduces their business activities. But in an environment of rising interest rates, enterprises seek to increase liquidity reserves through new loans. Against the backdrop of a double-digit growth rate in sales prices, funding sources with a single-digit interest rate are driving credit growth. On the other hand, high uncertainty due to rising geopolitical tensions and an increase in supply for financing investments from non-commercial sources are driving down demand for loans in the corporate segment.

In conditions of an uncertain financial future, consumers adjust their spending to their disposable income, so they are more reluctant to take up a loan. In the past year, growing household consumption was financed from current income, while demand for consumer loans lagged behind the actual growth in consumer prices. Demand for home loans increased in cycles related to deadlines for applications for government subsidies.

1. Market position (continued)

Government borrowing from banks did not affect the offer of loans to the private sector. The supply on the Croatian financial market in 2022 increased under the influence of the growing excess liquidity in the system. Demand for loans was not sufficient to absorb market surpluses on the capital supply side. Towards the end of the year, excess liquidity increased due to the release of banks' reserve requirements. Interest rates in the money market were slow to react to the European Central Bank's benchmark interest rate increase due to the impact of excess liquidity on money supply. The interest rates offered by banks on customer deposits persisted at near-zero levels. Over the year, interest rates on loans began to rise, but at a significantly slower pace than was the rate at which both the consumer and production prices grew. Therefore, the financial position of borrowers in a sensitive period of elevated inflation was burdened in the short term due to rising interest rates on loans. But in the long run, the debtor's position is easier due to a real decrease in the value of debt.

Structure of newly originated loans by interes rate resetting term, housing loans, in %



Sources: CNB, Raiffeisen Research

The results of the Bank and Group depend on business conditions in the financial market and changes in the real sector. The achieved economic growth has reduced the risk of placements, and high liquidity has a positive impact on the recovery from clients. General price growth spills over faster on corporate revenues than on consumer income, as salary growth lags behind price growth. Ultimately, due to the achieved growth of income of debtors, the real financial burden of debt repayment has been reduced.

The continued favorable trends in credit risks allowed for the release of part of loan loss provisions formed by banks in the preceding period. The economic growth against the backdrop of strengthening excess liquidity sustained the narrowing of the interest margin. On the other hand, the upwards trend in market interest rates spilled over to the loan offer, and with the stagnating interest rates on deposits, had a positive impact on interest margins and total earnings of banks. The increase in the number of transactions related to the growth of business activities enabled higher fee income to be generated. On the expenditure side, banks began to materialize the positive effects of investments in business digitalization technology and customer relations, however, due to the introduction of the euro, they had a one-time additional cost in the previous year.

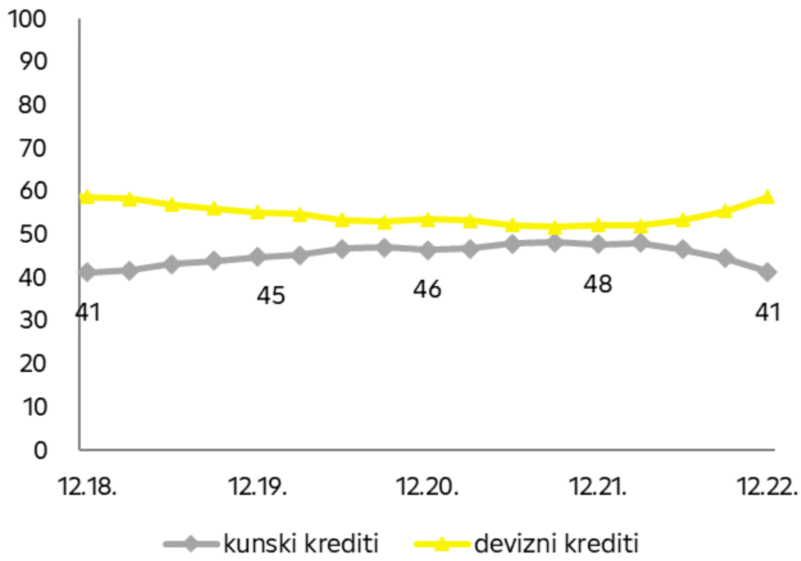
Keeping interest rates on deposits around zero did not slow down the growth of deposits in banks. Due to the high aversion to investing in riskier types of financial assets, clients continued to increase deposits in banks. The growth of corporate deposits results from increased sales income and the strengthening of liquidity reserves of corporate clients. The surplus of deposits lowered the interest rates that banks offer on term deposits towards the level they offer for demand deposits. Due to the unattractive yield on time deposits, clients often keep funds in demand accounts after the expiration of term deposits. As a result, the share of term deposits in total customer deposits in banks fell to almost one-fifth of total deposits.

1. Market position (continued)

A stable growth of customer deposits enables generous financing of banks 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. Fulfilment of MREL requirements began in 2022 for banks that are subject to the obligation to meet the criteria. Those banks issued debt instruments that meet the MREL requirement.

In the run-up to the introduction of the euro was approaching, the share of kuna in the currency structure of loans decreased. Historically, the gap between the offer of interest rates on foreign currency loans in relation to kuna loans motivated borrowers to take up loans in foreign currency. As the date of the changeover from kuna to the euro approached, this gap narrowed, so customers were demotivated to borrow in foreign currency. Under pressure from the growing liquidity surplus in the system, the gaps between the interest rates offered on kuna loans and those on euro loans narrowed further. When it comes to long-term loans, a growing number of borrowers decided to borrow in the euro.

Currency structure of loans, in %



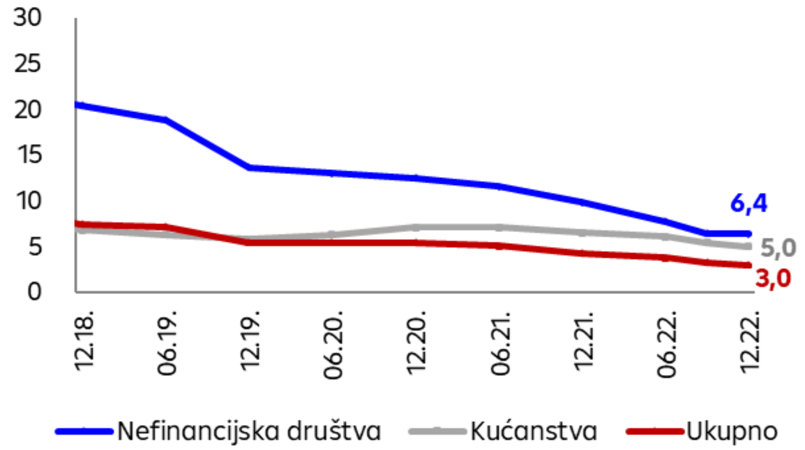
Sources: CNB; Raiffeisen Research

With the central banks shifting towards a more restrictive monetary policy and increasing the underlying interest rate, demand for bank loans with longer repayment terms and fixed interest rates is rising. This way, clients seek to fix the financing cost at low levels during loan repayment period, when they expect market interest rates to rise. The increased use of long-term loans with fixed interest rates (in the initial repayment period or until maturity) results in widening the gap in the maturity structure of banks' balance sheets due to a simultaneous decrease in average maturity on the funding side.

In retail banking, the demand for loans and the preference for saving depend on the movement of real income and on the expected value of household assets. The real burden of loan repayments is declining as a result of interest rate lagging relative to inflation levels. On the other hand, home loan subsidies for young population contributed to raising property prices. Since 90% of Croatian residents own the apartment in which they reside, the rise in real estate prices increases the value of assets of a larger portion of the population. Uncertainty over the impact of geopolitical shifts on the economic growth slowed down the increase in loan demand. Therefore, demand remains suppressed until business conditions and international exchanges stabilize.

1. Market position (continued)

NPL ratio, end of period, 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 government borrowing directly or indirectly in the domestic financial market, but also the regulation by which the central bank maintains financial stability. Additional factors of exposure to country risk include excess liquidity maintained by banks in accounts at the CNB, investment in debt instruments of the Republic of Croatia, direct government borrowing from banks and other financial institutions, and state guarantees for loans taken by public or private companies. Due to the reserve requirements, banks maintained part of their liquid assets in their accounts with the Croatian National Bank. In December, reserve requirements were reduced to one percent of bank liabilities. The CNB did not pay interest on the reserve requirement accounts.

Positive developments in the real sector, as well as developments in NPLs, had a positive impact on lending conditions in the short term. As for long-term placements, the offer of lending conditions were more significantly affected by growing uncertainty due to geopolitical tensions on the one hand, and due to the expected slowdown of the economy resulting from the restrictive monetary policy on the other. Market conditions for achieving credit policy objectives were favorable, and the achieved economic growth reduced the level of risk in the corporate sector. In the retail segment, the number of employees as well as the average salary increased. But the beginning of the growth of interest rates on loans has a negative impact on the creditworthiness of borrowers. The quality of the retail loan portfolio is better than that of corporate portfolio. Favorable developments in the economy much of the year had a positive impact on credit risks in the corporate segment. As for retail segment, favorable developments in the economy had a weaker effect on credit risks due to a slower growth in income in relation to price growth

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 2022 the Bank provided customer service through 62 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 58 thousand in legal entities and 307 thousand in retail.

2. Business activities of the Bank (continued)

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
The Bank adjusts credit policies to the market changes. In a period of economic growth, the average financial strength of borrowers is improving and lending conditions are adjusted to the change in general level of risk. Adjustments to credit policy criteria are consistent with changes in other non-economic factors that may affect the creditworthiness of borrowers during the repayment of credit obligations. In the previous year, there was a pronounced growth of geopolitical risks and related shocks on the energy market with the strengthening of inflationary pressures on the supply side.

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 changeable operating conditions, the highlight is 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 1,689 employees. The number of employees tends to decrease due to change in the operating business model due to the growing digitization of business processes. In the previous year, there was an increase in the number of employees due to the merger of Raiffeisen Stambena Štedionica and preparations for the introduction of euro as the official currency, which required additional work expenditure on adapting the business support system. 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 is in an adjustment process and 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 2022.

3. Financial result of the Bank

Total assets at the end of 2022 amount to HRK 47,875 million (2021: HRK 41,562 million) for the Bank stand alone. Compared to the previous period, an increase of HRK 6,313 million (2021: HRK 4,398 million) was realized. Customer loans realized an increase of HRK 2,770 million (2021: HRK 1,562 million), while placements to liquid types of assets increased by HRK 3,492 million. The increase in loans was financed from growing primary sources of financing, and the surplus of deposits spilled over into liquid assets. The increase in liquidity achieved in the last quarter is the result of a temporary increase in the inflow of cash in kuna due to exchange into euro. The share of liquid assets and investments in financial assets without loans within total assets a bit increased to 48 percent of total assets and the share of loans to customers amounts 49 percent (2021: 49 percent). Total loans to customers amounted to HRK 23,293 million (2021: HRK 20,523 million) at the end of year having increased by 13 percent year-on-year (2021: 8 percent).

Demand for non-purpose cash loans lagged behind the realized growth in consumer prices. The escalation of geopolitical tensions in the first half of year increased the level of general uncertainty among consumers. In such conditions, the propensity to spend is lower, which slowed down the growth of demand for non-purpose cash loans despite the solid economic growth realized in the first half of year. In the second half, a high level of uncertainty was maintained and additionally the economic growth slowed down, so the growth in demand for non-purpose cash loans in relation to inflation was also slowed down. The slower growth in the demand for non-purpose cash loans was compensated by an increase in the demand for housing loans.

3. Financial result of the Bank (continued)

In addition to government subsidies for housing loans for the younger population of users, the rise in prices on the real estate market also had a positive impact on the demand for housing loans. Relatively lower interest rates on loans compared to the realized growth in consumer prices had a positive effect on the demand for housing loans, while rising real estate prices had a negative effect on clients' creditworthiness. In the conditions of offering lower interest rates on housing loans below the reached levels of inflation, the demand for housing loans remained at a high level.

The defined date of Croatian entry into the Euro area after the end of year, supported a change in the currency structure of loans in the household segment. During the year, the share of kuna loans decreased, and at the end of year they were converted into loans in euros. Loans to households indexed to foreign exchange rates increased by 50 percent year on year, while HRK loans decreased by 17 percent.

The end of period characterized with the relaxed monetary policy when the central banks supply financial markets with the cheap money ended. Previous year is the beginning of central banks' process of increasing the key interest rate in order to stop inflationary pressures. That increased the awareness of interest rate risks among the population. Demand for loans with a contracted fixed interest rate has increased due to the expected growth of reference interest rates in the future period. In the case of loans with a medium repayment term, consumers mostly contracted a fixed interest rate until maturity. In the case of housing loans with a longer repayment term, it was common to contract loans with a fixed interest rate in the initial repayment period.

Bank financial highlights for the period from 2018 to 2022

	Bank 2022 HRK millions	Bank 2021 HRK millions	Bank 2020 HRK millions	Bank 2019 HRK millions	Bank 2018 HRK millions
From the Balance sheet 31 December					
Total assets	47,875	41,562	37,164	34,076	32,629
Shareholders' equity	5,207	5,143	4,748	4,675	4,226
Customer accounts	37,947	32,821	28,328	25,628	25,380
Loans to customers	23,293	20,523	18,961	18,456	16,099
From Income statement and other comprehensive income for the year ended 31 December					
Operating income	1,539	1,349	1,276	1,430	1,353
Operating expenses and depreciation	1,078	797	819	840	884
Profit before tax	332	542	173	436	239
Net profit for the year	279	449	132	438	219

Total customer deposits increased by HRK 5,126 million (2021: HRK 4,493 million) in the previous year. Deposits from corporate and other non-credit entities recorded a 17 percent increase (2021: 19 percent), while 15 percent (2021: 13 percent) increase was recorded in retail segment. Private individual deposits amounted to HRK 19,883 million (2021: 17,371 million), accounting for 47 percent (2021: 48 percent) of total liabilities of the Bank at the end of year. With the prevailing excess liquidity, the Bank has been seeking to motivate clients to invest in higher risk financial assets. Due to negative returns on alternative investment types in the previous year and the increased risk aversion of private individuals, total retail deposits accelerated their growth with the continuation of the maturity structure shift. The share of demand deposits reached 80 percent (2021: 78 percent) of total deposits in retail, and 95 percent (2021: 97 percent) in corporate and other non-credit entities.

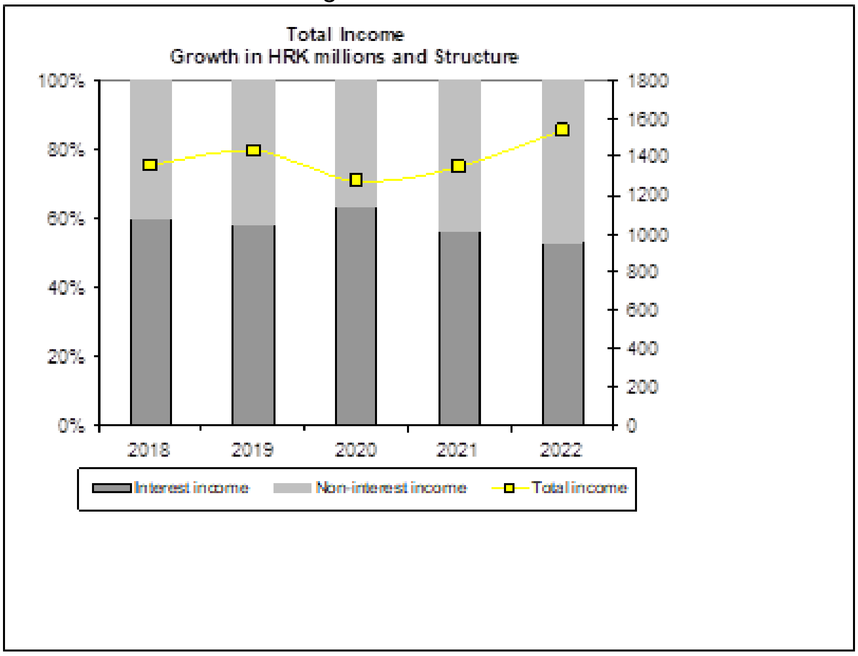
3. Financial result of the Bank (continued)

Share capital (T1) of HRK 5,207 million (2021: HRK 5,143 million) increased by 1 percent (2021: 8 percent) compared to the beginning of year. At the end of year, the Bank's total capital adequacy ratio was 22.26 percent (2021: 22.71 percent). In the process of adjusting to the Minimum Capital Requirements and Eligible Liabilities (MREL), the Bank issued a Sustainability Bond in the amount of EUR 200 million in September and additional EUR 63 million in November, thus fulfilling the transitional requirement for 2023. This further strengthened the Bank's resilience to systemic risks and, at the same time, provided sources for financing green and social projects in the sphere of energy efficiency and renewable energy sources, healthcare, education, basic infrastructure and affordable housing..

The Bank's business result in 2022 follows the prospects of economy. The increased level of uncertainty and the slowdown of economic activity towards the end of year raised the general level of risk, so the negative contribution to the operating result from impairment and provisions for risks amounted to HRK 129 million. Gross operating incomes increased by 14 percent (2021: 6 percent lower) and amounted to HRK 1,551 million (2021: HRK 1,349 million). Realized net profit after tax amounts HRK 279 million (2021: HRK 449 million).

High liquidity prevailed on the financial markets, which slowed down the transmission of increase in market interest rates to the interest rates contracted by the Bank on the placement side as well as on the liabilities side. Net interest income increased by 7 percent on an annual basis, because the growth of interest rates on loans had a greater positive contribution than the negative contribution of increased yield on debt instruments. Realized net income from fees is 16 percent higher. Income from fees and commission 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 result from trading in financial instruments and other income increased by 32 percent year on year

Total income (growth in HRK mln and structure)



Total operating expenses amount to HRK 1,078 million (2021: HRK 797 million), and are 35 percent higher year-on-year. The biggest contribution to the increase in costs was administrative costs, which increased by HRK 130 million on an annual basis. In addition to the general increase in purchase prices on the market characterized by inflation, the impact of one-time costs for the adaptation of support system for the introduction of euro was significant. The increase in operating costs by HRK 90 million refers to the decrease in the value of investments in subordinated companies due to the revaluation of the value of ownership in the Raiffeisen pension insurance company. Due to the growth of deposits, the coverage of deposits in the Croatian Deposit Insurance Agency was reduced below the prescribed level of 2.5 percent, so the Bank incurred an additional cost based on the payment of insurance premium in the amount of HRK 24 million.

3. Financial result of the Bank (continued)

Provisions for litigations against the Bank had a significant impact on losses for 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 2022, the total costs based on the risk of litigation amounted to HRK 44 million (2021: HRK 160 million). Provisions costs in other business segments relate to identified and unidentified loan losses. The achieved economic growth has a positive effect on the creditworthiness of borrowers, as well as the increase in prices on the real estate market, which facilitates the compensation of losses from real estate taken as a pledge for debt collection. On the other hand, the lag behind the increase in real wages after the realized growth in consumer prices reduces the average creditworthiness of borrowers from the retail segment. In the corporate segment, significant and sudden changes in purchase prices in relation to reduced opportunities to increase sales prices result in a structural transfer of profits between activities and companies, so some borrowers find it difficult to meet their obligations under borrowings.

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.

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.

In May 2022. The bank has merged the associated company Raiffeisen stambena štedionica d.d.

5. Research and development activities

In 2022, 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 2022.

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 2022 the local Raiffeisen Group consisted of the following legal entities, which are wholly owned by the Bank:

- 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.

As of May 2022, Raiffeisen stambena štedionica d.d. is integrated in the Bank and does not operate as a separate member of the Group.

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 2022

In 2022, the Company achieved the goals defined in the business plan, which resulted in a net profit of HRK 48 million (2021: 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 73% are revenues from the management of mandatory funds, and 27% are revenues from the management of voluntary funds.
The amount of the fee for the management of mandatory pension funds in 2022 was 0.270% (2021: 0.284%) 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 2022, 58% relates to expenditures from the management of the Funds, and 37% to operating expenses.
The Company's assets as at 31 December 2022 amounted to HRK 239 million (2021: HRK 249 million). The largest asset item is financial assets relating to funds and investments in debt securities.
The capital of the Company as at 31 December 2022 amounted to HRK 143 million (2021: 143 million).

7. Bank subsidiaries (continued)

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 will continue to work on perceiving the possibility of integration of sustainability factors into the investment process, i.e. looking at the circumstances that enable them, primarily through the analysis of the availability of relevant data and the establishment of an appropriate methodology for assessing, measuring and monitoring sustainability factors in order to consider their impact on pension funds operations and generally on the environment and society as a whole.

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.

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 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*.

7. Bank subsidiaries (continued)

Raiffeisen mirovinsko osiguravajuće društvo d.d.

The Company has the licence 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 2022

During 2022, the Company adjusted its business operations in accordance with the economic situation as a result of the post-COVID-19 epidemic and the war in Ukraine, out of which the consequences through sanction against Russia were most reflected in the global energy crisis and the drastic decline of the capital markets and the high volatility of all financial instruments. The company also adjusted the pensions of the beneficiaries twice per year with the official inflation index of the Republic of Croatia, which is required to be done in accordance with the provisions of the Act. Since compensations for the inflation index were paid to users from its own capital, the Company, due to this fact, achieved a negative result in the amount of HRK 58 million, but at the same time fulfilled all legal and regulatory obligations regarding capital adequacy and the level of technical provisions.
In December 2022, the Company had 12,079 pension payment contracts, and total assets amounting to HRK 1,782.15 million at the end of 2022. The largest asset item is the financial assets related to investments in debt securities.

Future development

The Company expects to continue its successful business operation, investing assets to cover technical provisions with the aim of preserving the sufficiency of technical provision 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.

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 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 operational risk.

The company expects the inflationary pressure will continue in 2023, but also its successful overcoming of it through investments in asset classes and financial instruments for protection against price changes and volatility, all for the purpose of investing assets to cover technical provisions with the aim of preserving the sufficiency of technical provision funds, ensuring maximum protection of pension beneficiaries as well as managing capital in order to preserve the Company's ability to continue operating as a going concern in order to ensure capital adequacy and return of investment to the owners with 100% support of the Company's owners in terms of capital needs.

7. Bank subsidiaries (continued)

Raiffeisen mirovinsko osiguravajuće društvo d.d. (continued)

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 provision 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.

Liquidity risk

Liquidity risk is the risk of loss arising from the existing or expected inability of the Company to meet its financial obligations when they are due. It also includes the cash flow risk, which arises due to the impossibility of transforming certain forms of assets into cash or the impossibility of balancing short-term sources of funds on the one hand and short-term liabilities on the other.
The Company is exposed to liquidity risk when it is unable to meet its expected and unexpected current and future need for funds in a timely manner, without affecting its regular daily operations or its own financial results.
The company takes into account the categories of assets when investing, the marketability of each categories, and with regard to the increased liquidity requirements, makes decisions on the restructuring of the assets.

7. Bank subsidiaries (continued)

Raiffeisen mirovinsko osiguravajuće društvo d.d. (continued)

Operational risk

Operational risk is the risk of financial loss resulting from inadequate or failed internal processes, systems, human factors or external events. Operational risk includes legal risk, but excludes strategic and reputational risk. In a certain number of cases, operational risk events are related to other types of risk (credit, market, legal, strategic), and the differentiation of operational and other types of risk is defined in more detail in the Company's documents related to risk management.

Operational risk management is conducted according to the principles established at the RBA Group level, and operational risk events are monitored and recorded according to the following categories: money laundering and terrorist financing, external fraud, internal fraud, employment practices and safe working environment, clients, products and business processes, disasters and public safety, technology and infrastructure failures, and process execution, delivery and management.

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

Raiffeisen Leasing d.o.o.

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

Business in 2022

2022 was profitable year for the Company, with achieved profit after tax in amount of HRK 17.88 million (2021: HRK 20.51 million) and total assets in balance sheet of HRK 1,427.08 million (2021: HRK 1,116.82 million).

Interest income was HRK 36.6 million (2021: HRK 34.3 million), while interest expense was HRK 8.7 million (2021: HRK 7.5 million). Interest income in 2022 has increased by 6.37 %, while interest expense has also increased by 13.81 %. compared to 2021. Net fee and commission expense were HRK 0.2 million (2021: HRK 0.6 million).

The Company's profit after tax amounted to HRK 17.88 million (2021: profit after tax HRK 20.51 million). In relation to capital and reserves, net profit amounted to 8.61% (2021: profit in relation to capital and reserves 10.8%). 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 still high liquidity supported the orderly collection of receivables from customers. The war in Ukraine during 2022 did not result in an increase of the credit risk, neither did inflationary pressures and an increase in interest rates caused by the growth of the index.
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 as well as index growth as a result of restraining inflationary pressures further narrowed interest margins.

Total assets of the Company as of 31.12.2022 amounted to HRK 1.4 billion (2021: HRK 1.1 billion). The finance lease portfolio, net of impairment, amounted to HRK 1,109 million (2021: HRK 858 million), while the net book value of fixed assets in operating lease amounted to HRK 137 million (2021: HRK 129 million). The increase in the portfolio was caused by the increased volume of new lease business, which is a direct consequence of the increased sales activities of the Company, as well as the normalization of supply chains. The Company's customers are legal and physical entities, mostly domestic residents.

7. Bank subsidiaries (continued)

Raiffeisen Leasing d.o.o. (continued)

Business in 2022 (continued)

In financing structure of business, besides own equity in amount of HRK 208 million (2021: HRK 190 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 2022, these loans amounted to HRK 581 million, while total amount of loans from domestic and foreign commercial and development banks amounted to HRK 588 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.

The company conducted the process of replacing the Croatian kuna with the euro in accordance with the positive legal regulations, and performed the adjustment and upgrade of the financial information system without difficulty.

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. 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.

Moreover, the Company will focus on ESG (Environmental, Social and Governance) business principles with special emphasis on the Environmental component, so-called "green financing".

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 are credit risk, market risk and liquidity risk.

7. Bank subsidiaries (continued)

Raiffeisen Leasing d.o.o. (continued)

Risk management (continued)

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

Market risk is the risk of negative impact of changes in market parameters, such as interest rates or foreign currency exchange rates, on the Company's income or on the value of its positions in financial instruments. Exposure assessment to market risk is based on changes in foreign exchange rates, interest rates, and other market parameters.

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

Liquidity risk

The Bank and the local Group adjust business activities according to legal provisions regulating liquidity risk and group and internal acts for maintaining liquidity reserves. At the end of 2022, the exposure of the Bank's and the Group's assets to liquidity risk is in accordance with the strategy and within the 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.

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*.

7. Bank subsidiaries (continued)

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 2022, the Company achieved the goals defined in the business plan, generating a net profit of HRK 2,716 thousand (2021: 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 52% (2021: 58%) of total income, and operating lease revenues, which make for 41% (2021: 34%) of total income.
In 2022, the Company recorded a decline in the income segment from real estate appraisals and construction supervision, being lower by 24% compared to 2021 due to reorganization of business with external partners.
Also, there was a decline in income from bookkeeping services due to the merger of Raiffeisen stambena štedionica d.d. to Raiffeisenbank Austria d.d.
In 2022, the Company reduced exposure to long-term loans by 8.2% or HRK 8.2 million (2021: 5.9% or HRK 7.2 million), while short-term loans exposure decreased by HRK 1.7 million or 9.9% (2021: increased by HRK 1.8 million or 11.6%).
The Company's assets as at 31 December 2022 amounted to HRK 218,996 thousand (2021: 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 2022 amounted to HRK 105,347 thousand (2021: 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 will intensify business activities in the segment of real estate management and maintenance, and especially increase activities related to the ESG 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.

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.

7. Bank subsidiaries (continued)

Raiffeisen consulting d.o.o. (continued)

Credit risk (continued)

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

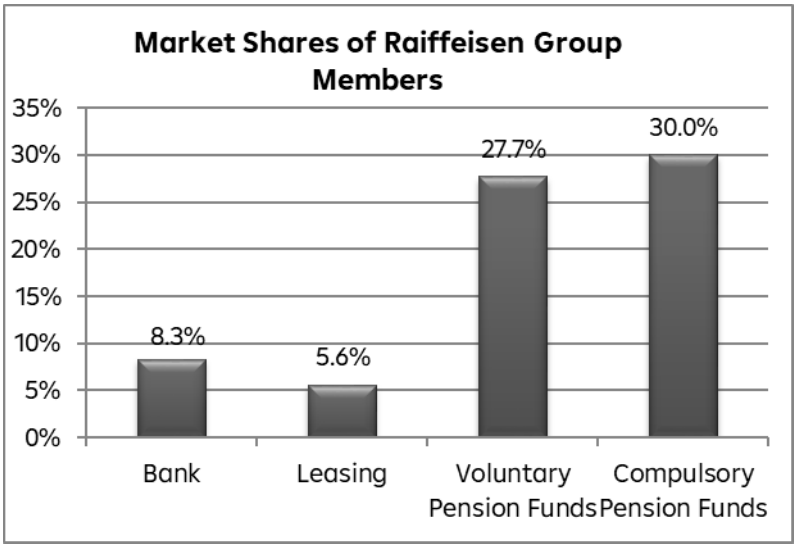
Liquidity risk is the risk that the Company may face difficulties when obtaining funding to meet commitments and the risk of not being able to transform certain forms of assets into cash. The company continuously measures, manages and monitors risk exposure, and defines a liquidity risk management plan on an annual basis.

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 2022 amounted to HRK 50,306 million (2021: HRK 44,532 million), having increased by 13 percent (2021: 11 percent) year on year. In the asset structure, loans to customers increased by HRK 2,303 million (2021: HRK 1,410 million), while liquid assets and investments in financial assets other than loans have increased by additional HRK 3,305million (2021: decreased by HRK 2,936 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 2022, assets under management in the three mandatory pension funds amounted to HRK 40,408 million (2021: HRK 39,942 million), with an additional HRK 2,242 million (2021: HRK 2,162 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 (2021: 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: 624 thousand members (2021: 612 thousand) in mandatory pension funds and 103 thousand members (2021: 97 thousand) in voluntary pension funds. The 1 percent annual growth (2021: 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)

Raiffeisen group financial highlights for the period from 2018 to 2022

	Group 2022 HRK millions	Group 2021 HRK millions	Group 2020 HRK millions	Group 2019 HRK millions	Group 2018 HRK millions
From Balance sheet at 31 December					
Total assets	50,306	44,532	40,127	36,844	35,165
Shareholders' equity	5,520	5,463	5,006	4,941	4,506
Customer accounts	37,617	33,541	29,139	26,561	26,233
Loans to customers	23,951	21,648	20,238	19,867	17,463
From Income statement for the year ended 31 December					
Operating income	2,053	2,084	2,202	2,034	1,804
Operating expenses and depreciation	1,529	1,469	1,729	1,445	1,233
Profit before tax	405	608	181	434	328
Net profit for the year	337	503	127	421	283

In 2022, the Group's total liabilities increased by HRK 5,717 million (2021: HRK 3,948 million). The share of customer deposits in the Group's total liabilities is 84 percent (2021: 86 percent) and the other funding sources account for 10 percent (2021: 7 percent) of total liabilities. In addition to the borrowings and debt securities issued in the Bank, a major part of the other sources of funding relates to borrowings of Raiffeisen Leasing. On 31 December 2022, borrowings amounted to HRK 1,388 million (2021: 1,085 million) and bank deposits add HRK 812 million (2021: HRK 286 million). Total customer deposits amounted to HRK 37,617 million (2021: 33,541 million). The share of private individual deposits in total liabilities was 44 percent (2021: 47 percent). On 31 December 2022, the Group's equity amounted to HRK 5,520 million (2021: 5,463 million), with capital adequacy ratio of 22.60 percent (2021: 22.77 percent).

The Group's profit after taxation in 2022 amounts to HRK 337 million (2021: HRK 503 million). Three companies in the local Group achieved a positive result; in addition to the bank, there was also a pension fund management company, consulting and leasing. A negative result was achieved by the pension insurance company, which in conditions of high inflation adjusted its obligations to pension beneficiaries with the increase in consumer prices, while the returns on the company's financial assets significantly lagged behind inflation.

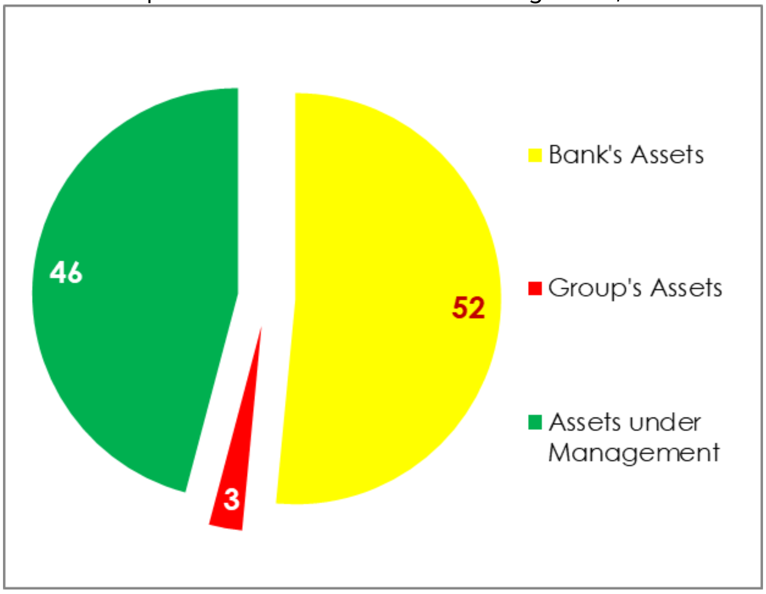
The Group's net interest income amounted to HRK 874 million (2021: HRK 830 million), up by 5 percent (2021: 5 percent) on the year before. At group level, the positive impact on net interest income was achieved after the end of the period of historically low interest rates and the cessation of the tendency of interest margin to fall. Net fee and commission income amounted to HRK 517 million (2021: HRK 460 million), up by 12 percent compared to the year before. The increase was generated in the Bank and decrease in the subordinated group members. Fee income is the primary income of the Group member which manage the assets of pension funds. The level of the management fee for mandatory pension funds is determined by the regulator.

Other non-interest income amounted to HRK 662 million (2020: HRK 794 million), down by 17 percent compared to previous period. Income from trading and valuation of financial assets generated a gain of HRK 137 million (2021: HRK 162 million).

7. Bank subsidiaries (continued)

Other operating income gained HRK 525 million (2021: 632 million), and the largest portion in the amount of HRK 435 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 2,053 million (2021: HRK 2,084 million), having decreased by HRK 31 million (2021: increased by HRK 118 million) on the year before. The Group's operating expenses amounted to HRK 1,529 million (2021: 1,469 million), of which HRK 176 million (2021: HRK 326 million) relate to technical provisions for pension insurance, and an additional HRK 225 million (2021: HRK 201 million) to administrative expenses for the increase in reserves. Operating expenses increased by HRK 60 million (2021: decreased by HRK 260 million) on the year before. Operating expenses account for 74 percent (2021: 71 percent) of the Group's total income.

The Group had HRK 119 million (2021: HRK 7 million) of impairment losses, up by HRK 112 million (2021: decreased by HRK 285 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 336 million (2021: HRK 503 million). On annual basis the net result decreased by HRK 166 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 2022, 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.

8. Financial instruments and related risks (continued)

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 44,952 million (2021: HRK 38,480 million) in assets and HRK 10,084 million (2021: HRK 9,109 million) in off-balance sheet items. At the Group level, credit risk exposure amounted to HRK 47,081 million (2021: HRK 41,319 million) in assets and HRK 10,328 million (2021: HRK 9,458 million) in off-balance sheet items.
At 31 December 2021, the Bank's total non-performing loans amounted to HRK 1,012 million (2021: HRK 1,158 million) out of a total exposure of HRK 56,139 million (2021: HRK 48,668 million). Loan loss provisions were formed in the amount of HRK 612 million (2021: HRK 703 million) covering 60 percent (2021: 61 percent) of non-performing loans. At the Group level, non-performing loans totalled HRK 1,049 million (2021: HRK 1,223 million) out of a total exposure of HRK 58,526 million (2021: 51,895 million) of total placements. Loan loss provisions were formed in the amount of HRK 623 million (2021: HRK 734 million), covering 59 percent (2021: 60 percent) of non-performing loans.

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 2022, 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.

8. Financial instruments and related risks (continued)

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 2022 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.

The Bank sponsored, among others, the following projects:

- *Project Boranka* - funds are intended for the organization of "Boranka", a volunteer post-fire reforestation campaign in Dalmatia.. The aim of the project is to develop awareness of the importance of protecting forests, preventing fires and the consequences of global warming
- *Compensating by planting* – a project whose main goal is the reduction of CO2 emissions through tree planting. The Bank calculated its CO2 emissions and committed to annul the emissions over a certain period of time by planting trees.
- Prize contest *„Na sunčanoj strani“* (*On the Sunny Side)* organized by the Green Energy Cooperative - which aims to encourage investment in solar power plants for self-consumption in households and the development of the small solar power plant market in Croatia
- *Women in Adria* - financial resources are intended to support the realization of the "Women in Adria" program in 2022.
- *Project "Nevjerojatni" (The Incredible)* - implementation of the program for young entrepreneurs organized by ACT Group, with RBA participating as a project partner
- *AmCham Talents program* - sponsorship of the AmCham Talents program 2022
- *Infobip Shift 2022* - sponsoring a conference consisting of educational and inspiring talk and Q&A sessions held by leading experts from the IT industry.
- *Greencajt Festival* – sponsorship of the first festival that is fully dedicated to sustainable development and topics related to sustainable lifestyle

9. Social responsibility (continued)

Sponsorships and donations (continued)

- *"Future Tense" Conference* – sponsorship of the B2B conference that brings together futurologists and deals exclusively with the topic of the future – what our daily life and work will look like. The conference encourages active reflection on the impact of the imminent changes on the future of business.
- *"Digital Labin" Conference* - ICT conference that brings together leading domestic and international web designers, developers of mobile applications and software solutions.
- *"Back Together"* conference that promotes better communication on various medical and health-related topics. The founder of the summit is medical doctor Natko Beck. The conference promotes a better, easier and more understandable communication on health and medical-related issues with the aim of increasing medical and health literacy.
- *Rokotok* – sponsorship of a project by a famous Croatian journalist, swimming between Croatian islands, in memory of his deceased son, educating children about environmental issues
- *Christmas donations* – in accordance with the proposals of its employees, RBA made 5 Christmas donation to the following associations:
    a. *Jak kao Jakov*
    b. *Korak dalje*
    c. *Cukrići Association*
    d. *Forca swimming club*
    e. *S-PAS Association*

Welfare of employees

The employee welfare area includes targeted campaigns every year, and the following activities that took place in the course of 2022 can be highlighted:

- Physical examination and additional health insurance for all staff; employees are entitled to one health check per year and additional examinations and diagnostics as indicated
- co-financing of recreational activities through the MULTISPORT program
- continuous investment in management, addressing topics of coping with stress and responsibility for the health and well-being of staff
- various educational activities in accordance with the individual development needs of employees
- most of the initiatives launched through the RBAlity project affect how we work at RBA and they are aimed at continuously improving work from home, hybrid work models, open-space work, branch offices (e.g. employee instructions, special campaigns, space decoration, classroom areas in branches, etc.) based on employee feedback and what they consider important.. Initiatives change work culture and significantly affect well-being and work-life balance

10. Non-financial information

In 2023, the Bank will issue a separate non-financial statement as at 31 December 2022, which will cover sustainability-related disclosures related to regulatory requirements.
Non-financial reporting regulated by Directive 2014/95/EU involving the Bank was also published by RBI on its website: www.rbinternational.com/sustainabilityreport.
.

Statement of Application of the Code of Corporate Governance

Management and Corporate Governance

In accordance with the requirements of the Luxembourg Stock Exchange on the obligation to apply corporate governance (The X Principles of Corporate Governance of the Luxembourg Stock Exchange – hereinafter referred to as "The X Principles"), as well as the corresponding requirements of local regulation, Article 272p of the Companies Act and Article 22 of the Accounting Act. Pursuant to Article 22 of the Accounting Act, the Management Board of Raiffeisenbank Austria d.d., Zagreb (hereinafter referred to as the Bank) declares that the Bank applies "The X Principles" which in substance and content correspond to the principles of the Corporate Governance Code (Code) as jointly prepared by the Croatian Financial Services Supervisory Agency ("HANFA") and the Zagreb Stock Exchange ("ZSE").
During 2022, the Bank published all information in accordance with the principles of corporate governance, as set out both in "The X Principles" and in accordance with local regulations, for the purpose of reporting to investors. The Bank has also established the following channels of communication with investors:

a) The "FIRST" platform of the Luxembourg Stock Exchange, through which the Bank provides information to the stock exchange, regulator (CSSF) and the public,
b) Web site of the Banks
c) Establishing internal procedures of communication with investors through the investor relations function assigned to the ALM department.

Within the framework of the established debt instrument issuance programme, the EUR 500,000,000 Euro Medium Term Note Programme, on 30 September 2022 the Bank issued, through a private offering, EUR 200 million of sustainable non-subordinated and unsecured bonds qualifying as eligible liabilities instrument, with the maturity in September 2026, with a view to maintaining compliance with the MREL requirement issued to the Bank by the Single Resolution Board. The bonds were issued in accordance with the Sustainability Bond Framework, established by the Bank in June 2022, and are listed on the regulated market of the Luxembourg Stock Exchange.
Furthermore, on 29 November 2022, the Bank issued through a private offering EUR 63 million of non-subordinated and unsecured bonds qualifying as eligible liabilities instrument, with the maturity on 29 November 2024, also with the aim of maintaining compliance with the MREL requirement issued to the Bank by the Single Resolution Board.
All documents relevant to the bond issue have been made public by the Bank and are available on the web page www.rba.hr.

The Bank pays particular attention to corporate governance, as the key determinant of the Bank's business operations, which provides an incentive to the Management Board and the Supervisory Board in achieving the interests and protection of shareholders and the Bank as a whole.

Internal controls system

With the aim of ensuring the integrity of the accounting system and financial reporting and reducing risks in the financial reporting process, the Group and the Bank have established an adequate system of internal controls and risk management, which is ensured through a clear segregation of duties of the participating organizational units, as it is regulated by internal policies and procedures; adequate and effective internal controls that are integrated into business processes and activities have been established.

The internal controls system at the Bank is ensured through the parallel operation of three mutually independent functions: (a) the risk monitoring function (b) the compliance function and (c) the internal audit function. The internal controls system has also been established where necessary in the Bank's related companies.
The main features of the internal controls system in the Bank and the related companies are reflected in independent holders of control functions responsible for the identification, assessment and management of risks, including risk control and compliance, and the internal audit oversees the entire operations of the Bank and the Group with the aim of assessing the adequacy of the established internal controls system. The Bank applies accounting policies aligned with the International Accounting Standards and International Financial Reporting Standards adopted by the European Union.

Statement of Application of the Code of Corporate Governance (continued)

Internal controls system (continued)

At the same time, the Bank engaged an external auditor and organized the application of previous, ongoing and subsequent financial supervision in the financial reporting and in the necessary decision-making process.

General Meeting

The Bank's shareholders exercise their rights in the General Meeting of the Bank. The General Meeting of the Bank takes decisions on the issues regulated by the Companies Act and the Articles of Association of the Bank. The General Meeting is convened by the Bank's Management Board and it has to be convened at the request of the Supervisory Board, the Management Board of the Bank or shareholders, in accordance with the law, at least once a year and when the interests of the Bank so require.
In addition to the issues which are within the scope of competence of the General Meeting under the mandatory provisions of the law, the topics which are within the sole competence of the General Meeting include:

- (a) amendments to the Articles of Association;
- (b) decisions on capital increase or decrease;
- (c) election and revocation of the Supervisory Board members;
- (d) granting approval of actions to the members of the Supervisory Board and Management Board;
- (e) decisions on remuneration of the Supervisory Board members;
- (f) the appointment and revocation of the Bank's external auditors;
- (g) decisions on transformation and winding-up of the Bank.

The General Meeting may not make any decision if shareholders representing more than half of the company's share capital (quorum) are not present in person or through a proxy. The right to vote at the General Meeting is governed by the nominal amounts of shares, with each share in the nominal amount of HRK 1,000 carrying one vote.

Management Board and Supervisory Board

The powers of the Management Board and Supervisory Board of the Bank are regulated by the applicable legal regulations, the Bank's Articles of Association, the Bylaws of the Management Board and the Bylaws of the Supervisory Board.
The procedure for appointment or election, as well as the removal of the members of the Management Board and Supervisory Board is stipulated by the Companies Act, the Credit Institutions Act, bylaws and the Articles of Association of the Bank.
The duties, responsibilities and powers of the members of the Management Board and the Supervisory Board are regulated by the Credit Institutions Act, the Companies Act and elaborated in more detail in the Articles of Association of the Bank and the bylaws of the bodies concerned. The Management Board meets at least once a week and the Supervisory Board as needed, but at least once a quarter.

Management Board

In accordance with the applicable legal regulations and the provisions of the Bank's Articles of Association, the Bank's Management Board is comprised of at least three members appointed by the Supervisory Board for a maximum term of office of five years, subject to obtaining prior approval from the Croatian National Bank. However, the Supervisory Board may appoint a larger number of members, the maximum being seven board members. Composition, duties and responsibilities of the Management Board are stipulated by the relevant legal and subordinate regulations, the Articles of Association, the Diversity Policy, the Policy related to the conditions and the procedure for assessing suitability of members of the Management Board and holders of key functions in the Bank, the Regulation on the organizational setup and the Bylaws of the Management Board.
Members of the Bank's Management Board must meet the requirements for performing the function of the member of the Management Board as prescribed by the Companies Act, the Credit Institutions Act and relevant subordinate regulations, global rules defined at the RBI Group level and internal regulations and bylaws of the Bank. The members of the Management Board have to possess adequate collective knowledge, skills and experience required to direct the business of the Bank independently, and in particular to understand the Bank's activities and the significant risks.

Statement of Application of the Code of Corporate Governance (continued)

Management Board (continued)

The suitability of an individual member of the Management Board of the Bank for performing the respective function represents the extent to which the relevant person has the required characteristics and meets the prescribed requirements, which should ensure professional, lawful, safe and stable performance of duties within their respective scope of competence in accordance with ethical principles.
The Management Board is responsible for managing the Bank's operations, and each member of the Management Board is responsible for a specific number of business functions and support functions. Each member of the Management Board has a scope of powers and responsibilities, which are assigned to them by the Supervisory Board by a special decision in accordance with the law, the Bank’s Articles of Association, the Bylaws of the Management Board and other regulations of the Bank.
The responsibilities and competences of the Management Board members are personal, legal and statutory, and they are supervisory and directional powers in relation to the areas of the executive responsibility of the managers of the first hierarchical level who are under their immediate jurisdiction.
The Bank's Management Board conducts business operations of the Bank and manages its assets. In doing so, it has the responsibility and authority to take all activities and make all the decisions it deems necessary for the successful conduct of the Bank's business operations.
Members of the Bank's Management Board are employed in the Bank on a full-time basis. The decision on the employment and termination of a member of the Management Board is made by the Supervisory Board according to the Companies Act and Labor Act.

Members of the Management Board at 31.12.2022

Liana Keserić	President
Georg Feldscher	Member
Višnja Božinović	Member
Ante Odak	Member

Supervisory Board

In accordance with the provisions of the Bank’s Articles of Association, the Supervisory Board of the Bank is composed of seven members.
The members of the Supervisory Board are appointed by the General Meeting for a term of office of four years, subject to the prior consent of the Croatian National Bank.
The Members of the Supervisory Board of the Bank must meet the requirements for performing the function of the member of the Supervisory Board as prescribed by the Companies Act, the Credit Institutions Act and relevant subordinate regulations, global rules defined at the RBI Group level and the internal regulations and bylaws of the Bank.
The Members of the Supervisory Board have to possess adequate collective knowledge, skills and experience required to supervise the business of the Bank independently, and in particular to understand the Bank's activities and the significant risks.
The suitability of an individual member of the Supervisory Board of the Bank for performing the respective function represents the extent to which the relevant person possesses the required characteristics and meets the prescribed requirements, which should ensure professionally, lawful, safe and stable performance of the tasks within their scope of competence.
Within the Supervisory Board of the Bank, the following committees have been established: the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Committee.
The members of the respective committees are appointed from the members of the Supervisory Board for a term of office corresponding to the current mandate of the Supervisory Board members.
The scope of competence and work of the respective committees is governed by the rules of procedure of each committee, in line with the relevant legal regulations.
The General Meeting of the Bank may remove a member of the Supervisory Board before the expiry of the current term of office to which he or she is appointed, provided that the legal or statutory reasons to such effect are fulfilled.

Statement of Application of the Code of Corporate Governance (continued)

Supervisory Board (continued)

Members of the Supervisory Board as at 31 December 2022	
Sabine Zucker	President
Peter Jacenko	Deputy President
Herald Kreuzmair	Member
Iryna Arzner	Member
Hrvoje Markovinović	Member

Amendments to the Articles of Association

The procedure for amendments to the Articles of Association is governed by Article 11 of the Articles of Association of the Bank. A proposal for amendments of the Articles of Association can be submitted by the Management Board, Supervisory Board or by shareholders of the Bank. A decision to amend the Articles of Association requires a majority of 3/4 of the votes cast at the General Meeting.
A proposal for amendments of the Articles of Association are submitted to the Supervisory Board, which is authorized to accept the proposal and refer it to the General Meeting of the Bank for adoption.

Diversity policy

The Bank, as a member of the RBI Group, applies the Group standards of diversity when selecting the members of the Management Board and the Supervisory Board, as stipulated by the Group policies on the structure, composition and remuneration of managerial bodies of RBI Group members and the Group policy on gender equality.
Among the key standards and responsibilities, of all the functions and employees involved, stand continuous efforts to increase the number of women holding managerial functions, which is the reason the Group promotes the role of women in managerial positions, as well as monitoring and reporting on the presence of women in corporate governance processes. The standard of professional and age diversity is also present when performing the assessment and selection of members of the Management Board and the Supervisory Board, as well as the evaluation of international business experience. The target representation of the less represented gender at the level of the Management Board and Supervisory Board is 25%, where the Bank is already well above the target percentage.

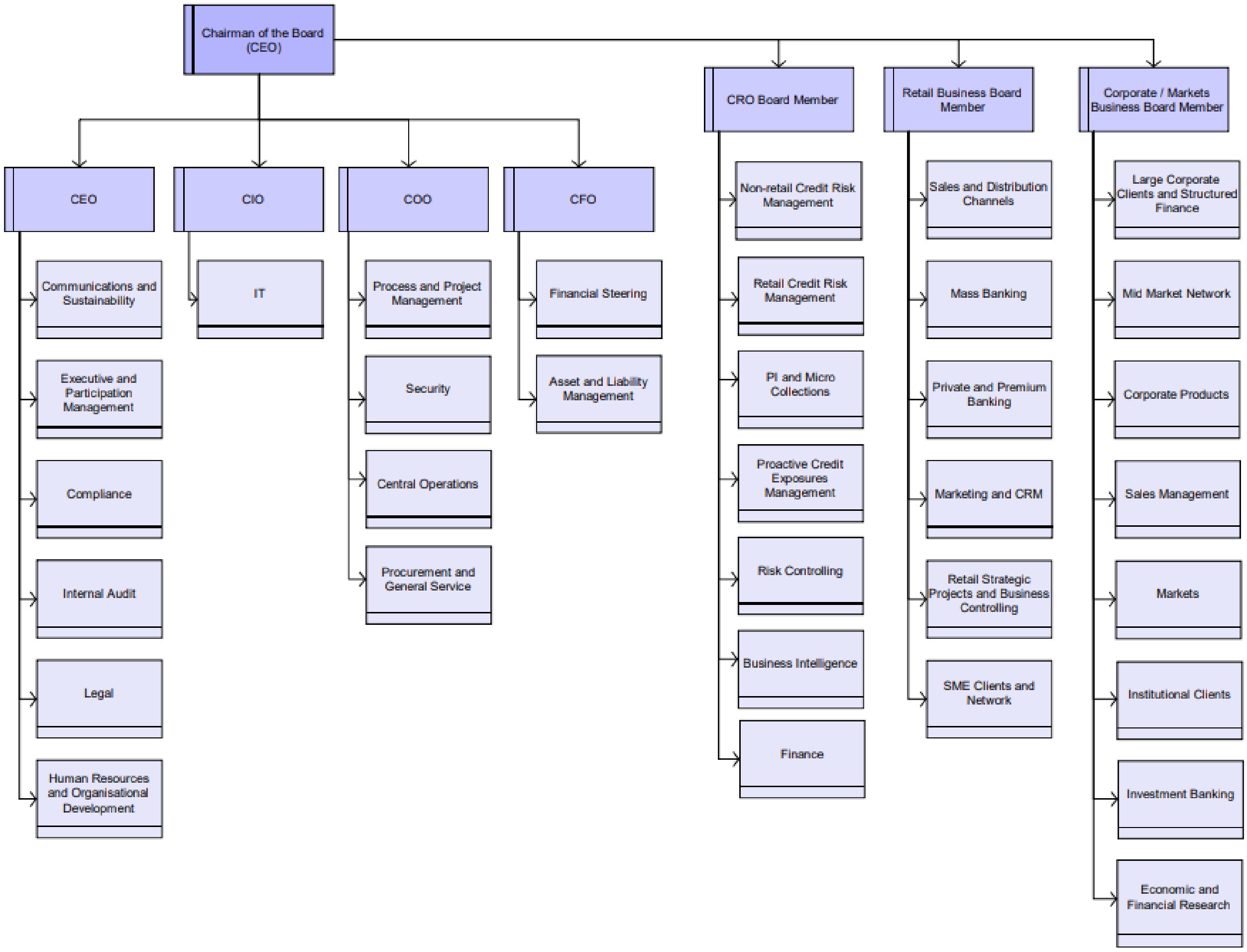
Remuneration policy

The remuneration policy supports the Bank's and Group's long-term strategy, in line with business objectives and risk management strategy, including the conflict of interest prevention mechanisms and taking into account ESG objectives. The policy is gender neutral, based on equality of pay for equal work. Reward schemes are continuously reviewed, improved and aligned with applicable local and European regulatory requirements, they promote adequate and efficient risk management and do not encourage risk-taking beyond the acceptable level for the Bank.

Statement of Application of the Code of Corporate Governance (continued)

Organizational chart

Organizational chart of the Bank in effect as at 31 December 2022:



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 the International Financial Reporting Standards adopted by the European Union ("IFRS") for each period presented, 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, Statement of Application of the Code of Corporate Governance 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, 144/22). In accordance with Commission Delegated Regulation (EU) 2018/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format ('ESEF Regulation'), the Management Board of the Company has a duty to prepare and publish the annual separate and consolidated financial statements in the XHTML format and markup the annual financial statements prepared in accordance with IFRS in the XHTML format using XBRL labels and markup notes to the annual financial statements as a text block in order to meet the requirements of Article 462 of the Capital Market Act. 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, OG 119/21 and OG 108/22).

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, OG 119/21 and OG 108/22) 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

Ante Odak
Member of the Management Board

Višnja Božinović
Member of the Management Board

Georg Feldscher
Member of the Management Board

Deloitte d.o.o.
ZagrebTower
Radnička cesta 80
10 000 Zagreb
Croatia
TAX ID: 11686457780

Tel: +385 (0) 1 2351 900
Fax: +385 (0) 1 2351 999
www.deloitte.com/hr

INDEPENDENT AUDITOR'S REPORT

To the owner of Raiffeisenbank Austria d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Raiffeisenbank Austria d.d. („the Bank") and consolidated financial statements of the Raiffeisenbank Austria d.d. and its subsidiaries („the Group") which comprise separate and consolidated statement of financial position as of 31 December 2022, separate and consolidated statement of comprehensive income, separate and consolidated statement of changes in equity and separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as of 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate and the Consolidated Financial Statements* section of our report. We are independent of the Bank and the Group 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.

Emphasis of atter

As stated in note 2 „*Basis for preparation*" in the „*Statement of compliance*" section, the separate and consolidated financial statements are the first to be prepared by the Bank and the Group in accordance with the IFRS reporting framework. For all periods up to, and including the year ended 31 December 2021, financial statements were prepared in accordance with statutory accounting requirements for banks in the Republic of Croatia. An overview of the impact of the first application of IFRS is shown in the aforementioned note 2 „*Basis for preparation*" in the „*Statement of compliance*" section. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

On December 31, 2022, Loans and advances to customers in separate financial statements amounted to HRK 23,293 million (31.12.2021: HRK 20,523 million) while in consolidated financial statements amounted to HRK 23,951 million (31.12.2021.: 21,648 million). 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 on loans and advances to customers 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; • 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 on loans and advances to customers 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 on loans and advances to customers, 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 on loans and advances to customers; • 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.;

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Maters (continued)

<table>
<tr><th>Key audit matter (continued):</th><th>How the matter was addressed in our audit (continued):</th></tr>
<tr><td>Since determination of appropriate loss allowances for expected credit losses on loans and advances to customers requires use of complex models (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 IFRS 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 separate and consolidated financial statements for the year ended 31 December 2022.</td><td>• 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;
iv. Assumptions applied to calculate probability of default;
v. Methods applied to calculate loss given default;
vi. Methods applied to incorporate forward-looking information;
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;
iii. Inspection and assessment of expected future cash flows from collateral and estimated realization period.</td></tr>
</table>

Report on the Audit of the Financial Statements (continued)

Key Audit Maters (continued)

<table>
<tr><td colspan="2">Provisions for court cases

Provisions for court cases in separate financial statements amounted to HRK 494 million (31.12.2021.: HRK 449 million) while in consolidated financial statements amounted to HRK 509 million (31.12.2021.: HRK 465 million). 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 Bank and Group. As a result, we have decided to include provisions for litigations as a key audit matter during our audit of the separate and consolidated financial statements for the year ended 31 December 2022.</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 provisions for legal claims;
• 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 internal and 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 internal and external legal advisors on status and outcome 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)

<table>
<tr><td colspan="2">Management fee income

For the year ended 31 December 2022 the Group achieved net income from management fee for management of mandatory and voluntary pension funds in amount of HRK 126 million (2021: HRK 123 million). 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.</td></tr>
<tr><td>Key audit matter:</td><td>How the matter was addressed in our audit:</td></tr>
<tr><td>As part of its operations, the Group has the right to charge fees for managing mandatory and voluntary pension funds, calculated as a percentage of the net asset value (NAV) of the mandatory and voluntary pension funds it manages.

The Group calculates the management fee daily and charges it monthly.

The calculation of management fees is carried out automatically, within the Group's information system, by applying the management fee rates applicable for each individual pension fund, in accordance with their prospectuses.

Income from fees for the management of mandatory and voluntary pension funds is an indicator of the success of the Group's operations, which is visible through the increase in the NAV of each fund and is of significant importance to users of financial statements in order to assess the Group's performance.

Since the incorrect calculation of the management fee can consequently have a significant impact on the Group's financial statements, we decided to include management fee income as a key audit matter during our audit of the separate and consolidated financial statements for the year ended 31 December 2022.</td><td>To address the risks associated with management fee income, identified as a key audit matter, we designed audit procedures that enabled us to obtain sufficient appropriate audit evidence for our conclusion on that matter.

We performed the following audit procedures with respect to the management fee income area:
• Gaining an understanding of the control environment and internal controls established by the Management Company for calculation of Management fee for the management of pension funds;

• Verification of the adequacy of the design and implementation of the identified internal controls relevant to the process of calculation of Management fee for the management of pension funds;

• Testing the operational effectiveness of identified relevant internal controls;

• Verification and comparison of data on the net value of assets of all mandatory and voluntary pension funds with the data of the depository bank;

• Checking and comparing the rate of management fee specified in the prospectus of each mandatory and voluntary pension fund with the rate applied in the calculation of the fee and comparison with the decisions of the Management Board of the Management Company, which define in more detail the applied percentages of the management fee within the limits prescribed by the prospectuses;

• Recalculation of income from the management fee for all mandatory and voluntary pension funds under the management of the Group.</td></tr>
</table>

Deloitte.

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”)
As of 31 December 2022, the Group has technical reserves to cover liabilities from pension contracts in the amount of HRK 1,579 million (2021: HRK 1,495 million). 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 b) “Technical reserves for pension insurance” 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.

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.</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>

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the separate and the consolidated financial statements and our auditor's report. We obtained other information before the date of the auditor's report, except for the Non-financial report prepared in accordance with the Article 21a and 24a of the Accounting Act, which is expected to be made available to us after that date.

Our opinion on the separate and the consolidated financial statements does not cover the other information.

In connection with our audit of the separate and the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With respect to the Management Report and the Corporate Governance Statement, which are 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 and whether the Corporate Governance Statement includes the information specified in the Articles 22 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 separate and consolidated financial statements.
2) Management Report has been prepared, in all material respects, in accordance with the Articles 21 and 24 of the Accounting Act.
3) Corporate Governance Statement has been prepared, in all material aspects, in accordance with the Articles 22 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 separate and the consolidated financial statements, we have not identified material misstatements in the other information.

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

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

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

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Separate and the Consolidated Financial Statements

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and 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 separate and the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements

Report based on the requirements of Delegated Regulation (EU) No. 2018/815 amending Directive No. 2004/109/EC of the European Parliament and of the Council as regards regulatory technical standards for the specification of the uniform electronic format for reporting (ESEF)

Auditor's reasonable assurance report on the compliance of separate and consolidated financial statements (financial statements), prepared based on the provision of Article 462 (5) of the Capital Market Act by applying the requirements of the Delegated Regulation (EU) 2018/815 specifying for the issuers a single electronic reporting format ("ESEF Regulation"). We conducted a reasonable assurance engagement on whether the financial statements of the Bank and the Group for the financial year ended 31 December 2022 prepared to be made public pursuant to Article 462 (5) of the Capital Market Act, contained in the electronic file *529900I1UZV70CZRAU55-2022-12-31-en.zip*, have been prepared in all material aspects in accordance with the requirements of the ESEF Regulation.

Responsibilities of the Management and Those Charged with Governance

Management is responsible for the preparation and content of the financial statements in line with the ESEF Regulation.
In addition, Management is responsible for maintaining the internal controls system that reasonably ensures the preparation of financial statements without material differences with the reporting requirements from the ESEF Regulation, whether due to fraud or error.
Furthermore, Company Management is responsible for the following:

- public reporting of financial statements presented in the annual report in valid XHTML format
- selection and use of XBRL markups in line with the requirements of the ESEF Regulation.

Those charged with governance are responsible for supervising the preparation of financial statements in ESEF format as part of the financial reporting process.

Auditor's Responsibilities

It is our responsibility to carry out a reasonable assurance engagement and, based on the audit evidence obtained, give our conclusion on whether the financial statements have been prepared without material differences with the requirements from the ESEF Regulation. We conducted our reasonable assurance engagement in accordance with the *International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000). This standard requires that we plan and perform the engagement to obtain reasonable assurance for providing a conclusion.

Quality management

We have conducted the engagement in compliance with independence and ethical requirements as provided by the Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants. The code is based on the principles of integrity, objectivity, professional competence and due diligence, confidentiality, and professional conduct. We comply with the *International Standard on Quality Management 1, Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* (ISQM 1) and accordingly maintain an overall management control system, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and statutory requirements.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements (continued)

Report based on the requirements of Delegated Regulation (EU) No. 2018/815 amending Directive No. 2004/109/EC of the European Parliament and of the Council as regards regulatory technical standards for the specification of the uniform electronic format for reporting (ESEF) (continued)

Procedures performed

As part of the selected procedures, we have conducted the following activities:

- We have read the requirements of the ESEF Regulation;
- We have gained an understanding of internal controls of the Bank and the Group, relevant for the application of the ESEF Regulation requirements;
- We have identified and assessed the risks of material differences with the ESEF Regulation due to fraud or error;
- We have devised and designed procedures for responding to estimated risks and obtaining reasonable assurance in order to give our conclusion.

Our procedures focused on assessing whether:

- Financial statements included in the separate and the consolidated report have been prepared in valid XHTML format;
- Data included in the separate and the consolidated financial statements required by the ESEF Regulation have been marked up and meet all of the following requirements:
    - XBRL has been used for markups.
    - Core taxonomy elements stipulated in the ESEF Regulation with the closest accounting meaning were used unless an extension taxonomy element was created in line with the Annex IV of the ESEF Regulation;
    - Markups comply with the common rules on markups in line with the ESEF Regulation.

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

Conclusion

We believe that, based on the procedures performed and evidence obtained, the financial statements of the Bank and the Group presented in the ESEF format, contained in the aforementioned electronic file, and based on the provision of Article 462 (5) of the Capital Market Act, have been prepared to be published for public, in all material aspects in accordance with the requirements of articles 3, 4 and 6 of the ESEF Regulation for the year ended 31 December 2022.

In addition to this conclusion, as well as the audit opinion contained in this Independent Auditor's Report for the accompanying financial statements and annual report for the year ended 31 December 2022, we do not express any opinion on the information contained in these documents or other information contained in the above-mentioned file.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on Other Legal and Regulatory Requirements (continued)

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 by the shareholder's on General Shareholders' Meeting held on 27 May 2022 to perform audit of accompanying separate and consolidated financial statements. Our total uninterrupted engagement has lasted 2 years and covers period from 1 January 2021 to 31 December 2022. We confirm that:

- our audit opinion on the accompanying separate and consolidated financial statements is consistent with the additional report issued to the Audit Committee of the Bank on 31 March 2023 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 its controlled undertakings, and which have not been disclosed in the Annual Report.

Supplementary reports for the Croatian National Bank

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, 119/21 and 108/22 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 2022, the Bank's and the Group's income statement, the Bank's and the Group's statement of 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 separate and consolidated financial statements prepared in accordance with IFRS. The financial information provided in those forms has been derived from the accompanying financial statements.

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

Katarina Kadunc

Direktor and certified auditor

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

Deloitte d.o.o.

31 March 2023
Radnička cesta 80,
10 000 Zagreb,
Croatia

(all amounts are shown in HRK millions)

Assets	Notes	Group 2022	Group 2021
Assets from continuing operations			
Cash and current accounts with banks	7	13,599	10,174
Obligatory reserve with the Croatian National Bank	8	-	1,870
Financial assets at fair value through profit or loss	9	995	1,887
Fair value hedge	9a	239	5
Placements with and loans to other banks	10	1,912	94
Loans and advances to customers	11	23,951	21,648
Investment securities measured at amortized cost	12a	4,483	2,577
Investment securities at fair value through other comprehensive income	12b	3,284	4,600
Property, plant and equipment	14a	717	703
Investment property	14b	136	136
Property, plant and equipment within financial lease	14c	137	129
Right of use assets	15	54	31
Intangible assets	16	413	401
Deferred tax assets	17	104	59
Other assets	18	282	165
Non-current assets held for sale and from discontinued operations	19	-	50
Total assets from continuing operations		**50,306**	**44,529**
Non-current assets held for sale and from discontinued operations	42	**-**	**3**
Total assets		**50,306**	**44,532**

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

.

(all amounts are shown in HRK millions)

Liabilities	Notes	Group 2022	Group 2021
Liabilities from continuing operations			
Financial liabilities at fair value through profit or loss	20	71	70
Deposits from banks	21	812	286
Deposits from companies and other similar entities	22	17,734	15,218
Deposits from individuals	23	19,883	18,323
Borrowings	24	1,388	1,085
Debt securities issued	25	1,970	978
Provisions for liabilities and charges	26	625	566
Tax liabilities		10	82
Lease liabilities	15a	54	31
Other liabilities	27a	508	405
Technical reserves for pension insurance	27b	1,579	1,495
Subordinated liabilities	28	152	529
Total liabilities from continuing operations		**44,786**	**39,068**
Liabilities from discontinued operations	42	**-**	**1**
Total liabilities		**44,786**	**39,069**
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	(105)	29
Retained earnings		1,513	1,322
Total equity attributable to owners of the parent		**5,520**	**5,463**
Total liabilities and equity		**50,306**	**44,532**

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

(all amounts are shown in HRK millions)

	Notes	Group 2022	Group 2021
Interest income calculated using the effective interest method	29	938	879
Other interest income	29	45	39
Interest expense	30	(109)	(88)
Net interest income		**874**	**830**
Fee and commission income	31	1,026	870
Fee and commission expense	32	(509)	(410)
Net fee and commission income		**517**	**460**
Net (loss) / gain from financial instruments at fair value	33	(16)	53
Net gain on trading and foreign exchange differences from translation of monetary assets and liabilities	33	153	109
Net losses from hedge accounting	33	-	-
Other operating income	34	525	632
Net trading and other income		**662**	**794**
Net operating income		**2,053**	**2,084**
Operating expenses	35	(1,381)	(1,333)
Depreciation	35a	(148)	(136)
Impairment losses	36	(58)	108
Provisions for liabilities and charges	26	(61)	(115)
Profit before tax		**405**	**608**
Income tax expense	37	(68)	(115)
Profit for the year from continuing operations		**337**	**493**
Profit for the year from discontinued operations	42	**-**	**10**
Profit for the year		**337**	**503**

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

(all amounts are shown in HRK millions)

	Notes	Group 2022	Group 2021
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		*(6)*	*2*
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		*(128)*	*(33)*
Other comprehensive loss for the year, net of tax		**(134)**	**(31)**
Total comprehensive income for the year		**203**	**472**
Profit for the year			
Attributable to:			
- Owners of the parent		337	503
Basic earnings per share attributable to the equity holders of the parent	44	**93.01**	**139.00**
Diluted earnings per share attributable to the equity holders of the parent	44	**93.01**	**139.00**

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

(all amounts are shown in HRK millions)

	Share capital	Share premium	Additional TIER 1 capital	Capital reserves	Legal reserve	Fair value reserve	Retained earnings	Total attributable to equity holders of the parent
At 1 January 2021	**3,621**	**12**	**297**	**1**	**181**	**59**	**835**	**5,006**
Total comprehensive income								
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)	503	472
Consolidation adjustments	-	-	-	-	-	-	9	9
Other changes	-	-	-	-	-	1	3	4
AT1 coupon (Note 39)	-	-	-	-	-	-	(28)	(28)
At 31 December 2021	**3,621**	**12**	**297**	**1**	**181**	**29**	**1,322**	**5,463**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	337	337
Other comprehensive income								
Change in fair value of equity financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	(6)	-	(6)
Change in fair value of debt financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	(128)	-	(128)
Total comprehensive income	-	-	-	-	-	(134)	337	203
Other changes	-	-	-	-	-	-	2	2
Dividend paid	-	-	-	-	-	-	(120)	(120)
AT1 coupon (Note 39)	-	-	-	-	-	-	(28)	(28)
At 31 December 2022	**3,621**	**12**	**297**	**1**	**181**	**(105)**	**1,513**	**5,520**

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

(all amounts are shown in HRK millions)

	Notes	2022	2021
Cash flows from operating activities			
Profit before tax		405	608
Adjustments for:			
- Depreciation	35a	148	136
- Foreign exchange differences	33	8	47
- Realised gains / (losses) on financial assets at fair value	33	16	(53)
- Net release from impairment losses	26,36	119	7
- Net interest income	29,30	(874)	(830)
Changes in operating assets and liabilities			
Net (increase) of financial assets at fair value through profit or loss	9	871	(210)
Net (increase) in fair value hedge	9a	(218)	(5)
Net decrease / (increase) in placements with banks, with original maturity more than three months		(130)	99
Net decrease / (increase) in obligatory reserve with the Croatian National Bank	8	1,870	(265)
Net increase in loans and advances to customers	11	(1,708)	(1,367)
Net decrease in other assets	18	(82)	67
Net increase in right of use assets	15	(37)	(16)
Net (decrease) / increase in financial liabilities at fair value through profit or loss	20	(6)	(130)
Net (decrease) / increase in deposits from banks	21	512	2
Net increase in deposits from companies and other similar entities	22	1,583	2,456
Net increase in deposits from individuals	23	1,450	1,810
Net increase in other liabilities	27a	180	226
Interest received (excluding investment securities)		863	907
Interest paid		(102)	(79)
Net cash from operating activities before tax		***4,868***	***3,410***
Income tax paid		(74)	(19)
Net cash from operating activities		***4,794***	***3,391***

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

(all amounts are shown in HRK millions)

	Notes	Group 2022	Group 2021
Cash flows from investing activities			
Interest received from securities at fair value through other comprehensive income		52	60
Interest received from securities measured at amortized cost		82	47
Payments for purchase of securities measured at amortized cost		(1,841)	(831)
Proceeds from purchase of securities measured at fair value through other comprehensive income		1,315	183
Payments for purchase of property, plant and equipment and intangible assets		(156)	(156)
Proceeds from disposal of property, plant and equipment and intangible assets		28	67
Proceeds from asset held for sale		52	-
Proceeds from disposal of property, plant and equipment within operational lease		(41)	(138)
Net cash from investing activities		***(509)***	***(768)***
Cash flows from financing activities			
Receipts from borrowings	24	17,355	10,520
Repayment of borrowings	24	(17,056)	(12,266)
Repayment of a subordinated loan	28	(369)	-
AT1 coupon paid	39	(28)	(28)
Dividend paid		(120)	-
Debt securities issued	25	1,979	975
Debt securities repayment	25	(979)	-
Repayment of lease liabilities		(9)	1
Net cash from financing activities		**773**	**(798)**
Effects of foreign exchange differences on cash and cash equivalents		34	40
Net increase / (decrease) in cash and cash equivalents		**5,092**	**1,865**
Cash and cash equivalents at the beginning of the year		**10,235**	**8,370**
Cash and cash equivalents at the end of the year	45	**15,327**	**10,235**

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

(all amounts are shown in HRK millions)

Assets	Notes	Bank 2022	Bank 2021
Cash and current accounts with banks	7	13,571	10,163
Obligatory reserve with the Croatian National Bank	8	-	1,870
Financial assets at fair value through profit or loss	9	302	747
Fair value hedge	9a	239	5
Placements with and loans to other banks	10	1,878	76
Loans and advances to customers	11	23,293	20,523
Investment securities measured at amortized cost	12a	3,683	2,180
Investment securities at fair value through other comprehensive income	12b	3,284	4,425
Investments in subsidiaries	13	301	374
Property, plant and equipment	14a	496	476
Right of use assets	15	136	125
Intangible assets	16	380	368
Other assets	18	214	123
Non-current assets held for sale	19	-	58
Deferred tax assets	17	98	49
Total assets		**47,875**	**41,562**

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

(all amounts are shown in HRK millions)

Liabilities	Notes	Bank 2022	Bank 2021
Financial liabilities at fair value through profit or loss	20	71	69
Deposits from banks	21	812	541
Deposits from companies and other similar entities	22	18,064	15,450
Deposits from individuals	23	19,883	17,371
Borrowings	24	549	448
Debt securities issued	25	1,970	978
Provisions for liabilities and charges	26	609	547
Tax liabilities		14	80
Lease liabilities	15a	140	128
Other liabilities	27a	404	278
Subordinated liabilities	28	152	529
Total liabilities		**42,668**	**36,419**
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	(105)	27
Retained earnings		1,208	1,012
Total equity		**5,207**	**5,143**
Total liabilities and equity		**47,875**	**41,562**

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

(all amounts are shown in HRK millions)

	Notes	Bank 2022	Bank 2021
Interest income calculated using the effective interest method	29	889	809
Other interest income	29	32	26
Interest expense	30	(105)	(74)
Net interest income		**816**	**761**
Fee and commission income	31	862	712
Fee and commission expense	32	(478)	(380)
Net fee and commission income		**384**	**332**
Net gain from financial instruments at fair value	33	91	61
Net gain on trading and foreign exchange differences from translation of monetary assets and liabilities	33	156	113
Net losses from hedge accounting	33	-	-
Other operating income	34	92	82
Net trading and other income		**339**	**256**
Net operating income		**1,539**	**1,349**
Operating expenses	35	(953)	(680)
Depreciation	35a	(125)	(117)
Impairment losses	36	(67)	106
Provisions for liabilities and charges	26	(62)	(116)
Profit before tax		**332**	**542**
Income tax expense	37	(53)	(93)
Profit for the year		**279**	**449**

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

	Notes	Bank 2022	Bank 2021
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		*(6)*	*2*
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		*(126)*	*(32)*
Other comprehensive loss for the year, net of tax		**(132)**	**(30)**
Total comprehensive income for the year		**147**	**419**

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

(all amounts are shown in HRK millions)

	Share capital	Share premium	Additional TIER 1 capital	Capital reserves	Legal reserve	Fair value reserve	Retained earnings	Total attributable to equity holders of the parent
At 1 January 2021	**3,621**	**12**	**297**	**1**	**173**	**56**	**588**	**4,748**
Total comprehensive income								
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)	449	419
Other changes	-	-	-	-	-	1	3	4
AT1 coupon (Note 39)	-	-	-	-	-	-	(28)	(28)
At 31 December 2021	**3,621**	**12**	**297**	**1**	**173**	**27**	**1,012**	**5,143**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	279	279
Other comprehensive income								
Change in fair value of equity financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	(6)	-	(6)
Change in fair value of debt financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	(126)	-	(126)
Total comprehensive income	-	-	-	-	-	(132)	279	147
Other changes	-	-	-	-	-	-	65	65
Dividend paid							(120)	(120)
AT1 coupon (Note 39)	-	-	-	-	-	-	(28)	(28)
At 31 December 2022	**3,621**	**12**	**297**	**1**	**173**	**(105)**	**1,208**	**5,207**

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

(all amounts are shown in HRK millions)

	Notes	Bank 2022	Bank 2021
Cash flows from operating activities			
Profit before tax		332	542
Adjustments for:			
- Depreciation	35a	125	117
- Foreign exchange differences	33	7	43
- Net release from Impairment losses	26,36	129	10
- Realised (gains) / losses on financial assets at fair value	33	20	(61)
- Value adjustment of investment in subsidiaries	35	92	2
- Net interest income	29,30	(816)	(761)
- Dividend income from subsidiaries	34	(55)	(51)
Changes in operating assets and liabilities			
Net (increase) in financial assets at fair value through profit or loss	9	396	54
Net (increase) of fair value hedge	9a	(223)	(5)
Net (increase) / decrease in placements with banks, with original maturity more than three months		(73)	(12)
Net (increase) / decrease in obligatory reserve with the Croatian National Bank	8	1,870	(265)
Net increase in loans and advances to customers	11	(2,817)	(1,546)
Net (increase) / decrease in other assets	18	(51)	(12)
Net (increase) / decrease in right of use assets	15	(33)	(13)
Net (decrease) / increase in financial liabilities at fair value through profit or loss	20	(7)	(130)
Net increase / (decrease) in deposits from banks	21	256	100
Net increase in deposits from companies and other similar entities	22	2,556	2,450
Net increase in deposits from individuals	23	2,404	1,906
Net increase / (decrease) in other liabilities	27a	149	24
Interest received (excluding investment securities)		859	862
Interests paid		(93)	(62)
Net cash from operating activities before tax		***5,027***	***3,192***

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

	Notes	Bank 2022 HRK millions	Bank 2021 HRK millions
Income tax paid		(56)	-
Net cash from operating activities		***4,971***	***3,192***
Cash flows from investing activities			
Interest received from securities at fair value through other comprehensive income		52	53
Interest received from securities measured at amortized cost		62	37
Payments for purchase of securities measured at amortized cost		(1,493)	(745)
Proceeds from purchase of securities measured at fair value through other comprehensive income		988	85
Investments in associates		(75)	-
Proceeds from asset held for sale		58	-
Dividend received from subsidiaries	34;41	55	51
Payments for purchase of property, plant and equipment and intangible assets		(136)	(147)
Net cash from investing activities		***(489)***	***(666)***
Cash flows from financing activities			
Receipts from borrowings	24	16,879	10,332
Repayment of borrowings	24	(16,780)	(11,949)
Repayment of a subordinated loan	28	(369)	-
AT1 coupon paid	39	(28)	(28)
Dividend paid	41	(120)	-
Debt securities issued	25	1,979	975
Debt securities repayment	25	(979)	-
Payment of lease liabilities		(23)	(6)
Net cash from financing activities		***559***	***(676)***
Effects of foreign exchange differences on cash and cash equivalents		34	40
Net increase / (decrease) in cash and cash equivalents		**5,075**	**1,890**
Cash and cash equivalents at the beginning of the year	45	**10,224**	**8,334**
Cash and cash equivalents at the end of the year	45	**15,299**	**10,224**

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 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.

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

Management and the governance

Supervisory Board at 31 December 2022 and changes during the year:

Sabine Zucker	Member from June 17 2021 to December 18,2022
	President from December 19, 2022
Peter Jacenko	Deputy President from January 1, 2021
Lovorka Penavić	Member from February 27, 2014 to February 26, 2022
Hrvoje Markovinović	Member of the Supervisory Board from January 17, 2019
Herald Kreuzmair	Member from June 17, 2021
Iryna Arzner	Member from December 13, 2021

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

(all amounts are shown in HRK millions)

1. General information (continued)

Management and the governance (continued)

Management Board at 31 December 2022 and changes during the year:

Liana Keserić	President from May 14, 2021
Georg Feldscher	Member since November 1, 2020
Višnja Božinović	Member since January 1, 2022
Ante Odak	Member since September 16, 2021

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

Liana Keserić	President since May 13, 2020 to May 13,2021
	President from May 14, 2021
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 to December 31, 2021
Ante Odak	Member since September 16, 2021

Audit Committee at 31 December 2022 and changes during the year:

Harald Kreuzmair	President since August 3, 2021
Petar Jacenko	Vice President since June 21, 2019
Lovorka Penavić	Member since April 2018 to February 26, 2022
Hrvoje Markovinović	Member from February 27, 2022 to August 27, 2022
	Member from September 15, 2022

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

These financial statements were authorised for issue by the Management Board on 31 March 2023.

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 unconsolidated and consolidated financial statements of the Bank and the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS)."

These are the first financial statements of the Bank and the Group which are prepared in accordance with IFRS requirements and the requirements of IFRS 1: First-time Adoption of International Financial Reporting standards (IFRS 1) have been applied. With certain exceptions, IFRS 1 requires retrospective application of standards and interpretations effective as at 31 December 2022 for the preparation of the first unconsolidated and consolidated statement of financial position according to IFRS as at 1 January 2021 and throughout all periods presented in its first IFRS financial statements.
In preparing these financial statements, the Bank and the Group did not have any material mandatory exceptions and did not apply any optional exemptions to the retroactive application of any IFRS standards.
For all periods up to and including the year ended 31 December 2021, financial statements were prepared in accordance with statutory accounting requirements for banks in the Republic of Croatia.
The statutory accounting requirements for banks in the Republic of Croatia were based on the International Financial Reporting standards as adopted in the European Union ("IFRS") and as stipulated in the Accounting Act (OG 78/2015, 134/2015, 120/2016, 116/2018, 42/2020 and 47/2020), and specifically taking into account:

1. Credit Institutions Act (OG 159/2013, 19/2015, 102/2015, 15/2018, 70/2019, 47/2020 and 146/2020); and
2. Subordinate legal regulations of the Croatian National Bank ("HNB"), which included, but were not limited to, the following regulations for the year ended 31 December 2021 and 31 December 2020:
• Decision on the classification of exposures into risk categories and the method of determining credit losses (OG 114/2017 and 110/2018); and
• Decision on the obligation to make provisions for litigations conducted against a credit institution (OG 1/2009, 75/2009, 2/2010 and 139/2013).

As of 1 January 2020, the requirement to maintain 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), was repealed.
Also, other differences identified and published in the Bank and Group's financial statements as at 31 December 2021 and 31 December 2020, did not represent significant deviations from the requirements for recognition and measurement according to IFRS.

According to the assessment of the Bank and the Group, the closing position as at 31 December 202 1 and 31 December 2020, published in the separate and consolidated statement of financial position of the Bank and the Group as well as the separate and consolidated statement of comprehensive income and the separate and consolidated statement of cash flow of the Bank and the Group, prepared in accordance with the statutory accounting requirements for banks in the Republic of Croatia, are aligned with the IFRS recognition and measurement requirements. Therefore, in preparing the first IFRS financial statements of the Bank and the Group, there was no need to adjust the amounts reported previously in the financial statements prepared in accordance with the statutory accounting requirements for banks in the Republic of Croatia.

The principal accounting policies applied in the preparation of these financial statements are summarized below.

2. Basis of preparation (continued)

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 Key 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, as stated in Note 1, which are then consolidated in the financial statements of RBI (available on RBI website: www.rbinternational.com/en/investors/reports/annual-reports.html)

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.

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.

2. Basis of preparation (continued)

d) Basis of consolidation (continued)

Business combinations (continued)

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.

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.

2. Basis of preparation (continued)

d) Basis of consolidation (continued)

Loss of control (continued)

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.

(all amounts are shown in HRK millions)

2. Basis of preparation (continued)

e) Standards, amendments and interpretations of existing standards

First-time application of new amendments to existing standards in force for the current reporting period

In the current year, the Bank and the Group implemented a series of amendments to international accounting standards published by the International Accounting Standards Board ("IASB") and adopted in the European Union ("EU"), which are mandatory for the reporting period beginning on or after January 1, 2022.

Standard	Title
Amendments to IFRS 3	Reference to the Conceptual Framework with Amendments to IFRS 3
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before intended use
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract
Amendments to various standards (IFRS 1, IFRS 9, IFRS 16 and IAS 41)	Annual Improvements to IFRS - 2018-2020 Cycle

Their adoption did not have any significant impact on the disclosures or on the amounts reported in these financial statements.

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

At the date of approval of these financial statements, the Bank and the Group have not applied the following new and revised international accounting standards issued and adopted by the EU, but not yet effective:

Standard	Title	EU adoption date
IFRS 17	New Standard IFRS 17 "Insurance Contracts" including amendments to IFRS 17 of June 2020 and December 2021	1.1.2023
Amendments to IAS 1	Disclosure of Accounting Policies	1.1.2023
Amendments to IAS 8	Definition of Accounting Estimates	1.1.2023
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities arising from a Single Transaction	1.1.2023

The Bank and the Group do not expect the adoption of the above Standards to have a significant impact on the Financial Statements of the Bank and the Group in future periods.

IFRS 17: *Insurance Contracts*

In May 2017, the IASB published IFRS 17: *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition, measurement, presentation and disclosure, to replace IFRS 4: *Insurance Contracts*.

Unlike IFRS 4 requirements, which are mainly based on the monitoring of previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive general model for insurance contracts, complemented by a variable-fee approach for direct participation contracts that include a significant investment component, and an allocated premium approach mainly for short-term contracts, which generally applies to certain non-life insurance contracts.

2. Basis of preparation (continued)

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

IFRS 17: *Insurance Contracts (continued)*

The main features of the new accounting model for insurance contracts are as follows:

- Measuring the present value of the future cash flows, including explicit risk adjustment, re-measurement for each reporting period.
- Contractual Services Margin (CSM) is measured as a positive difference (net inflow) between the risk adjusted present value of the expected inflows and outflows for a specific group of contracts. As such, it shows the expected profitability of the contract already at the beginning of the contract and is recognised in the profit or loss account for the entire lifetime.
- Certain changes in the expected present value of the future cash flows are aligned with the CSM and are therefore recognised in the profit or loss account during the remaining contract period.
- The effect of discount rate changes is stated either in the profit and loss or in other comprehensive income, depending on the accounting policy selected.
- Recognition of insurance income and costs of insurance services in the statement of comprehensive income based on services provided over the period.
- The amounts that the policyholder will always receive, regardless of whether an insured event occurred, are not presented in the profit and loss account, but are recognized directly in the balance sheet.
- The results of insurance services (earned premium less damages incurred) are presented separately from insurance finance income or expense.
- Extensive disclosures providing information on recognized amounts under insurance contracts and the nature and extent of the risks arising from those contracts.

IFRS 17 is effective for annual periods beginning on or after 1 January 2023, with comparative data required. Earlier application is permitted, provided that the entity also applies IFRS 9 and IFRS 15 on or before the date of the first-time application of IFRS 17. Retroactive application is required. However, where the full retroactive application for a group of insurance contracts is impractical, the entity shall choose between the modified retrospective approach or the fair value approach.

Impact assessment

Under IFRS 17, revenue will be recognised in profit or loss over the term of the contract, and this will be primarily based on the release of the CSM in the profit or loss account, in accordance with the timeframe of service provision, and the value adjustment for non-financial risk as the associated risk expires. Although the total profit recognised over the term of the contract will not change, the Group expects the recognition of profit to be less volatile. This is mainly because for certain life insurance contracts, all revenues are currently recognised in profit or loss on initial recognition of the contract. Different times of recognising revenues will result in an increase in liabilities after the adoption of IFRS 17, as part of the income previously recognised and accumulated in capital under IFRS 4 will be included in the measurement of liabilities under IFRS 17.

The transition to IFRS 17 will not have an impact on the Group, since the effect on the valuation of technical reserve liabilities has been absorbed by the increase in surplus assets belonging to the policyholders. This results in the Group's liability to policyholders remaining unchanged in relation to IFRS 4.

2. Basis of preparation (continued)

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

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

Currently, the standards adopted by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board, apart from the following newh standards and changes to the existing standards, which the EU has not yet adopted as on the date of these financial statements:

Standard	Title	Adoption status in the EU
Changes and amendments to IAS 1	Classification of liabilities as current or long-term (effective date of the IASB: 1 January 2023)	Not yet adopted
Changes and amendments to IAS 1	Long-term liabilities with contracts (Effective date of the IASB: 1 January 2024)	Not yet adopted
Changes and amendments to IFRS 16	Lease Liability and Lease Liability in a Sale and Leaseback (Effective date of the IASB: 1 January 2024)	Not yet adopted
IFRS 14	Regulatory deferral accounts (Effective date of the IASB: 1 January 2016)	The European Commission decided not to initiate the approval procedure for this temporary standard and to wait for the final standard
Changes and amendments to IFRS and IAS 28	Sale or contribution of property between the investor and its associated company or joint venture and further changes and additions (effective date postponed indefinitely by the IASB, but earlier application permitted)	The approval process has been delayed indefinitely until the equity method research project is completed

The Bank and the Group do not expect that the adoption of the above Standards will have a significant impact on the financial statements of the Bank and the Group in future periods.

Hedge accounting of portfolios of financial assets and liabilities, the principles of which have not been adopted by the EU, remains unregulated. According to the estimates of the Bank and the Group, implementation of hedge accounting on the portfolio of financial assets or liabilities in accordance with IAS 39: *Financial Instruments: Recognition and Measurement* would not have a significant impact on the financial statements, if applied at the date of the statement of financial position.

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 77ve ran 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 2022	1 EUR =7.534500 kn	1 USD=7,064035 kn	1 CHF=7.651569 kn
31 December 2021	1 EUR =7.517174 kn	1 USD=6.643548 kn	1 CHF=7.248263 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.

c) Financial assets at fair value option through profit or loss

The bank allocated the part of the financial assets in a portfolio of financial assets at fair value option through profit or loss in order to significantly reduce the "accounting mismatch" that would otherwise result from swap contracts that are not closed "back-to-back" and are not meant to be in a hedge accounting as well as forwards in HRK that are contracted for a period longer than December 31, 2022. (Note 9)

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.

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).

3. Significant accounting policies (continued)

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

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 measured at 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.

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.

3. Significant accounting policies (continued)

Fair value measurement principles (continued)

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.

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.

3. Significant accounting policies (continued)

Modifications of financial assets and liabilities (continued)

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.

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.

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, and there is only modification of existing assets 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.

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.

The bank estimates the risk exposures in accordance with internal rating models for each segment. Depending on the estimated risk, the exposures are classified in low, medium and high risk.

3. Significant accounting policies (continued)

Impairment of financial assets (continued)

Significant increase of credit risk (continued)

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

Measuring expected credit loss

The Group measures expected losses in accordance with the IFRS requirements, 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 fair 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 International Financial Reporting Standards.

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 looking.

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) - 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.

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.

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 reorganization

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.

3. Significant accounting policies (continued)

Impairment of financial assets (continued)

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

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- 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 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)

Hedge accounting (continued)

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.

Investments in subsidiaries

In the Bank's separate financial statements, investments in subsidiaries are accounted for at acquisition cost less impairment losses. Investments in subsidiaries are consolidated by the full consolidation method in the Group's consolidated statements. The Bank estimates the value of investments in subsidiaries if there are indications of impairment, at least annually. Impairment loss is recognized in all cases when the book value of the asset is greater than its recoverable amount. The recoverable amount represents the value that is greater than the fair value less the costs of sale and the value in use. The Bank records impairment losses in the profit and loss account.

3. Significant accounting policies (continued)

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: management is committed to a plan to sell, the asset is available for immediate sale, an active programme to locate a buyer is initiated, 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.

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.

3. Significant accounting policies (continued)

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.

The Liability Adequacy Test (LAT) is performed annually by the Company's actuary using current estimates of future cash flows under pension contracts (see Note 4). Where those indicate that the carrying amount of the reserve is insufficient in respect of the estimated future cash flows, the difference is recognised in profit or loss with an appropriate increase in the technical reserve.

Technical reserves are calculated by the Company's designated certified actuary in accordance with the prescribed legal framework. The technical reserve calculation formulas are an integral part of the price list of the corresponding pensions from the voluntary pension insurance, and from the compulsory pension insurance.

The carrying amount of technical reserve in the statement of financial position presents total assets covering technical reserve minus the paid premium of the future period, financial obligations, liabilities for compensation from assets covering technical provisions, calculated unpaid pensions, purchase of securities and revaluation reserves from investment of assets covering technical reserves, separately for mandatory pension insurance and voluntary pension insurance. The actual amount of technical provisions resulting from the Company's calculations is presented in Note 10.

Assets covering technical reserves represent the net amount of assets available to cover technical provisions, i.e. total assets covering technical reserves minus financial liabilities and other receivables for pensions and the paid premiums 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. Assets covering technical reserves are reported in the MOD-TP and MOD-PU forms.

According to the Act, a pension insurance company that pays pensions under mandatory pension insurance is obliged to adjust the amount of pension according to the rate of change in the consumer price index at least twice a year for the previous six-month period. The consumer price index is determined based on data from the Croatian Bureau of Statistics. Also, all pensions contracted under the previous Act on Pension Insurance Companies and payment of pensions based on individual capitalized savings (OG 106/99, 63/00, 140/05, 107/07 and 114/11) are adjusted accordingly.

3. Significant accounting policies (continued)

Tehnical reserves and premiums (continued)

Pensions contracted under the Pension Insurance Companies Act (OG 22/14 and 29/18), for which pension beneficiaries did not accept the amendment of the pension contract, are adjusted, in accordance with Article 135 of the Act on Amendments to the Pension Insurance Companies Act (OG 115/18), in the same way and with the same frequency as stipulated by the Act governing mandatory pension insurance under pay-as-you-go pension scheme. Emergency reserves are formed when allocating surplus funds from investment of assets to covering technical reserves in accordance with Article 88 of the Pension Insurance Companies Act. Intervention reserves are maintained separately for mandatory pension insurance, voluntary pension insurance based on transfers from open voluntary pension funds and direct one-off payments, and for voluntary pension insurance based on transfers from closed pension funds.

Emergency reserves are taken into account in the calculation of Tier 1 capital of the pension insurance company in accordance with Article 76 of the Pension Insurance Companies Act.

Premium income

Premium income 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.

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:

	2022	2021
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:

	2022	2021
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 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.

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.

3. Significant accounting policies (continued)

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.

If there are multiple similar liabilities (e.g product warranties or similar contracts), probability that settlement will require an outflow is determined by considering the group of liabilities as a whole. Although the probability of an outflow for any item may be low, it may be likely that some outflow of resources will be required to settle the group of liabilities as a whole. In this case, the provision is recognized (if other conditions for recognition are met).

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.

Leases –Bank or Group as a lessor

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.

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 liabilities by lease.

3. Significant accounting policies (continued)

Leases (continued)

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.

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.

3. Significant accounting policies (continued)

Leases (continued)

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.

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.

3. Significant accounting policies (continued)

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.

Securitisation

The Bank transfers the risk of a defined portfolio of financial assets, using the obtained financial third-party guarantees as a form of synthetic securitisation. A securitised portfolio is not transferred to a third party, but remains in the Bank's books. If the deterioration of credit risk of a securitized portfolio exceeds certain thresholds, the Bank has the right under the contract to seek compensation from a third party in accordance with the financial guarantee. The bank pays a fee to a third party in accordance with the financial guarantee agreement.
The financial guarantee is recorded in the Bank's off-balance sheet and a fee is calculated and paid to the contracting party on a quarterly basis. The Bank accounts for the receivables from the contracting party if the credit losses of the securitised portfolio exceed the thresholds set out in the contract. Receivables are booked by reducing the loan loss expense for the amount of realized income.

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).

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*.

4. Significant accounting policies and judgements (continued)

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.

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

Default

The default of the Bank's exposures is determined on the basis of the regulatory requirements under 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 and EBA Regulatory Technical Standards on materiality threshold of credit obligations past due under Art.178 EU Regulation 575/2013

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 the non-retail segment, the Bank uses the model of expected credit losses to recognise value impairments in keeping with 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 2022, 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 information.

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.

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.

4. Significant accounting estimates and judgements (continued)

b) Impairment of financial assets (continued)

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.

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 92 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.

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.

4. Significant accounting estimates and judgements (continued)

b) Impairment of financial assets (continued)
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.

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*.

4. Significant accounting estimates and judgements (continued)

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 2022, 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 970 million (2021: HRK 746 million) for the Group and HRK 783 million (2021: HRK 527 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*.

e) Provisions for court cases

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

In rare cases, when it may be disputed whether certain events occurred and whether they resulted in the creation of a present obligation, the Group and the Bank determine whether a present obligation exists at the end of the reporting period, taking into account all available evidence. This evidence includes all additional evidence arising from events occurring after the reporting period. Based on this evidence:

- if it is more likely that the present obligation exists at the end of the reporting period, the Group and the Bank recognise provisions (if the recognition requirements are met);
- if it is more likely that the present obligation does not exist at the end of the reporting period, the Group and the Bank declare a contingent liability, unless the possibility of an outflow of resources with economic benefits is unlikely.

An outflow of resources or another event is considered probable if it is more likely that it will occur than not, i.e. the probability of the occurrence of the event is greater than the probability of its absence. If it is not probable that a present obligation exists, the Group and the Bank declare a contingent liability, unless the possibility of an outflow of resources with economic benefits is unlikely.

The Bank estimates potential loss per 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.

4. Significant accounting estimates and judgements (continued)

e) Provisions for court cases

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 Group and 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 the end of 2022, and average amount of claims. The potential loss is increased for the relevant default interests and expected litigation 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 are formed by the Bank. Portfolio provisions are 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 the end of 2022, 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.

For details see Note 26 *Provisions for liabilities and charges.*

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.

Forming of the provisions is one of the significant estimates related to the Group's financial statements. When calculating technical provisions, the Group implements the provisions of the Ordinance on minimum standards, methods of calculation and guidelines for calculation of technical provisions of the pension insurance company. The amount of technical provisions is calculated by the appointed authorized actuary of the Company. Insurance risk management, liability adequacy test, sensitivity of provisions to changes in significant variables and terms and conditions of insurance contracts that have a significant impact on the amount, time and uncertainty of future cash flows.

The Bank's Management Board believes that the current level of technical provisions is sufficient to fulfil obligations under pension contracts concluded until 31 December 2022.

4. Significant accounting estimates and judgements (continued)

g) Pension insurance (continued)

Liability adequacy test

Technical provisions are tested at each reporting date against the calculation of future cash flows (based on a financial model) by using clear and consistent assumptions about all factors – future mortality rates, return on investments, costs and the future adjustment rate for pensions from mandatory pension insurance:

- reliable market data,
- available statistical data,
- best estimates of experiential values.

For this purpose, the Company uses the Liability Adequacy Test for liabilities from lifetime pension contracts from mandatory and voluntary pension insurance. Where reliable market data is available, assumptions are made based on available market prices. However, in the absence of market transactions in Croatia, significant difficulties still remain in most cases when calibrating the applied assumptions according to observable market conditions.
Considering that according to IFRS 4, financial annuities are not an insurance contract, liabilities under temporary pension contracts will not be considered in the LAT.

Input assumptions are updated annually based on recent experience. The testing methodology takes into account current assumptions about all future cash flows.

Segmentation

The Company segments products into several homogeneous groups according to the characteristics of each product (product type: mandatory pension insurance, voluntary pension insurance – open-end pension funds and one-time direct payments by individuals and voluntary pension insurance – closed-end pension funds).
Each product is separately tested for adequacy of liabilities. The net present value of future cash flows calculated on the basis of the assumptions described below is compared with technical provisions and technical provisions increased by surplus funds above the technical provisions, less the revaluation provisions, financial liabilities and liabilities for payments fees (that is, with technical provisions shown in the financial statements) from pension insurance. If this comparison shows that the carrying amount of the pension liability is insufficient to take into account the estimated future cash flows, the entire shortfall is recognized in profit or loss by recognizing additional liabilities.

When conducting the LAT, the entire portfolio of lifetime pensions was taken into account, as, according to the definition, temporary pensions in the Company's portfolio are not considered an insurance contract, and it was carried out separately for mandatory pension insurance, voluntary pension insurance - ODMF and JUO, and voluntary pension insurance – ZDMF.
The calculation was carried out on each individual pension contract, and the results were then grouped into defined homogeneous groups.

For the purposes of the liability adequacy test, the amount of technical provisions (actuary) for lifetime pensions was taken into account. Assets for the coverage of technical provisions represent the net amount of assets available for the coverage of technical provisions, i.e. total assets for the coverage of technical provisions less financial liabilities. The amount of technical provisions (balance sheet) is derived from assets to cover technical provisions by reducing that amount for revaluation provisions (from assets available for sale from investments of technical provisions), other liabilities and liabilities under pension contracts.
Further in the text, the term technical provisions refer to actuarial provisions.

(all amounts are shown in HRK millions)

4. Significant accounting estimates and judgements (continued)

g) Pension insurance (continued)

Experiential assumptions

Mortality

Given the limited mortality experience and the fact that mortality analysis does not provide reliable results, no additional adjustment for mortality experience was made. It continues to be monitored and will be included in the LAT in future periods in which results will be more reliable. The assumed mortality in the LAT is more conservative than that in the Croatian annuity tables.

Risk margin

The Company did not perform an independent calculation of the risk margin, which is a standard part of the calculation of the best estimate according to Solvency 2 principles, but took the market average. The published financial statements of insurance companies for the year 2020 were observed and the market average is 1.06% on the overall best estimate.

Costs

The test used the total compensation for covering costs related to pension payment (deferred compensation, i.e. the annual compensation for covering pension payment costs) in an individual portfolio based on the Company's experience in 2021. Costs for which there is a reasonable assumption that they will not occur in the future (such as initial costs) are not included in the analysis. The key to cost allocation is the amount of technical provisions.

The conclusion of the analysis concerning the distribution of costs in 2022 is: compensation for covering the costs of pension payments is inadequate in the portfolio of mandatory pension insurance and adequate in the portfolio of voluntary pension insurance. The total compensation that the Company earns on the entire portfolio is sufficient to cover operating costs.
In the case of an increase in the Company's costs, this would not be reflected in provisions increase, because only the fees stipulated in a contract are transferred from the provisions account to the Company's account. Therefore, no sensitivity test for the increase in costs was performed. All costs are settled from the Company's account, so an increase in costs would affect only the Company's result, but not the increase in cost provisions.

Inflation and growth of gross wages

Period	Inflation rate (DZS)
1H 2014	-0.1%
2H 2014 EoY	-0.2%
1H 2015	-0.2%
2H 2015 EoY	-0.5%
1H 2016	-1.0%
2H 2016 EoY	-1.1%
1H 2017	0.8%
2H 2017 EoY	1.1%
1H 2018	1.1%
2H 2018 EoY	1.5%
1H 2019	0.2%
2H 2019 EoY	0.8%
1H 2020	-0.2%
2H 2020 EoY	0.0%
1H 2021	1.2%
2H 2021 EoY	2.6%
1H 2022	5.9%

4. Significant accounting estimates and judgements (continued)

g) Pension insurance (continued)

Exchange rate

Pensions from voluntary pension insurance are contracted with a currency clause in EUR and have a 12.22% share in the total technical provisions of the Company. Asset investments for the coverage of technical provisions from voluntary pension insurance are currency-matched 96.60% in DMO-ODMF, i.e. 91.25% in DMO-ZDMF.
As of 1 January 2023, the EURO became the official currency in Croatia, whereby all liabilities and all kuna assets were recalculated into their euro countervalue, thus eliminating this risk. The company has no investments in other currencies through which it would be exposed to currency risk.

Surplus funds for the coverage of technical provisions

According to the Act on Pension Insurance Companies (OG 22/14, 29/18 and 115/18), if the assets to cover the technical provisions in the mandatory pension insurance exceed 110% of the value of all current and future liabilities according to the pension contracts concluded by the Company, the amount exceeding that value may be distributed by the Company in accordance with the same Act, and if the assets to cover the technical provisions in the mandatory pension insurance exceed 115% of the value of all current and future liabilities according to the pension contracts entered into by the Company, the amount that exceeds that value shall be distributed by the Company in accordance with the same Act. The company can make a one-time payment, i.e. attribute to pension beneficiaries a part of the annual surplus funds from assets investment to cover the technical provisions of voluntary pension insurance, if this surplus can be distributed in accordance with the previous section.

All pension contracts concluded before the amendments to the Act (OG 115/18) entered into force, in accordance with the pension contract, have the right to a one-time payment of that surplus, whereas all pension contracts concluded after the amendments to the Act (OG 115/18) entered into force, in accordance with the pension contract, have the right to attribution of such surplus.
The company made one-time payments of surplus funds to the beneficiaries of voluntary pension insurance for the periods from 2014 to 2020. The last payment was in July 2021 for the year 2020.

As mentioned, the Act on Amendments to the Act on Pension Insurance Companies (OG 115/18) prescribes that a portion of the surplus amount, which is to be distributed to pension beneficiaries, will be attributed in proportion to the respective pension amount, duration of pension payment, type of pension, i.e. pension scheme and the necessary amount of technical provisions per individual pension contract. The company attributes the surplus to pension beneficiaries within 60 days from the date of the general assembly's acceptance of the annual financial statement.

It follows from the above that:

- it is not likely that in the next period there will be an attribution/payment of surplus for OMO ILI MPI
- it is not likely that in the next period there will be an attribution/payment of surplus for DMO. ILI VPI

Since the surplus, in case of distribution, is attributed to pension beneficiaries from the assets for the coverage of technical provisions, at most up to the level of assets for the coverage of technical provisions of 110% in relation to the value of all current and future obligations according to the pension contracts concluded by the Company, the sufficiency of assets to cover technical provisions is not questionable. Namely, the attribution of surplus funds to pension beneficiaries is, according to the legal definition and method of determination, of such a nature that it does not affect the adequacy of liabilities, since it is paid from surplus funds, and only after the actuary's confirmation of the adequacy of liabilities. The surplus to be attributed becomes a liability only at the moment of attribution.

The best estimate of the provisions was calculated per each pension contract based on life expectancy and using the included assumed costs (pension payment costs), whereby cash flow was created for all subsequent years of the Company's active portfolio as of 31.12.2022.

(all amounts are shown in HRK millions)

4. Significant accounting estimates and judgements (continued)

g) Pension insurance (continued)

Each of these assumptions in the table below is further tested through sensitivity analysis. The following assumptions were used in the initial calculation of the best estimate:

Scenario	Yield	Mortality	Inflation	Risk margin
Central LAT	Projected yields in line with SAA	TS HR 2010.-2012., age – 5 years	2.00%	0%

For the best estimate, a curve obtained according to expected returns and according to the expected allocation of assets for coverage of technical provisions was used.

Given the limited mortality experience and the fact that mortality analysis does not provide reliable results, an additional adjustment for mortality experience was not made, but the official Mortality Tables of the Republic of Croatia from 2010 to 2012 were used, with a 6-year age reduction.

Assumed inflation is 2.0% throughout the duration. Risk margin is not included in the initial scenario.
The conclusion is that the adequacy test shows the sufficiency of total provisions.

For details see Notes: 3. *Significant accounting policies Pension insurance* and *Technical provisions and premiums* and 27b) *Other liabilities* and 27a) *Technical reserves for pension insurance*.

h) 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.*

i) 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)

4. Significant accounting estimates and judgements (continued)Classification of lease contracts

i) *Cl*assification of lease contracts (continued)

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* and 15.a) *Lease liabilities*.

j) 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 2022, which is consistent with the assessment made for 2021.

k) Investment in subsidiaries

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

(all amounts are shown in HRK millions)

4.a) Reclassification

Reclassification of comparative periods

During 2022, the Bank reclassified certain items in the statement of financial position in order to align the presentation of financial statements with IFRS requirements. Therefore, the previously published amounts as of 31 December 2021 were reclassified, as presented below. As there was no change in measurement, these reclassifications had no impact on profit or loss, other comprehensive income and retained earnings.

Liabilities	Note	Group Report 2021	Reclassification	Group Amended report 2021
Liabilities from continuing operations				
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 securities issued	25	978		978
Provisions for liabilities and charges	26	566		566
Tax liabilities		82		82
Lease liabilities	15a	31		31
Other liabilities	27a	1,900	(1,495)	405
Technical reserves for pension insurance	27b	-	1,495	1,495
Subordinated liabilities	28	529		529
Total liabilities from continuing operations		**39,068**		**39,068**
Liabilities from discontinued operations	42	**1**		**1**
Total liabilities		**39,069**		**39,069**
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		29
Retained earnings		819		819
Profit for the year		503		503
Total equity attributable to owners of the parent		**5,463**		**5,463**
Total liabilities and equity		**44,532**		**44,532**

(all amounts are shown in HRK millions)

4.a) Reclassification (continued)

Other liabilities

	Group Report 2021	Reclassification	Group Amended report 2021
Technical reserves for pension insurance	1,495	(1,495)	-
Liabilities in respect of credit and debit card business	120		120
Liabilities in respect of advances received for insurance premium	69		69
Liabilities to employees	57		57
Liabilities to suppliers	46		46
Liabilities for loan prepayments	24		24
Management fee liabilities	20		20
Liabilities for inactive clients funds	16		16
Deferred fee and commission income prepayments	13		13
Liabilities for VAT, tax and surtax on interest	8		8
Liabilities related to purchase securities	-		-
Repurchase of domestic currency cash	3		3
Other liabilities	29		29
	1,900	**(1,495)**	**405**

Technical reserves for pension insurance

	Group 2021 report	Reclassification	Group Amended report 2021
Technical reserves for pension insurance	**-**	**-**	**1,495**

In the 2022 financial statements, the Bank reclassified liabilities for technical provisions for pension insurance from note 27.a) Other liabilities to note 27.b) Technical provisions for pension insurance in the amount of HRK 1,495 million.

4.b) Environmental, social and management risks

Environmental, social and management risks refer to risks that may have a negative impact on the financial performance or solvency of the Bank and/or the Group, and which arise from current or future impacts of ESG factors.
In the context of these activities, we follow the EBA guidance and take a prudent view when it comes to ESG and elaborate on the associated risks, and we create and operate in accordance with sectoral and portfolio strategies, we support circular economy and our goal is to encourage business opportunities resulting from the transition to a low-carbon economy.

Environmental risks are driven by environmental factors. They should be understood as financial risks represented by exposure of institutions to other contracting parties which can potentially contribute to or be affected by climate change and other forms of environmental degradation (such as air pollution, water pollution, lack of fresh water, soil pollution, loss of biodiversity and deforestation).

4.b) Environmental, social and management risks (continued)

Climate change / climate-related risks

Climate-related risks are financial risks represented by exposure of institutions to counterparties which can potentially contribute to or be affected by climate change. For example, damage to businesses or citizens caused by extreme weather or a decline in the value of company assets in carbon-intensive sectors. Furthermore, we distinguish between physical and transition risks:

Physical risks

Physical risks are manifest in the form of:

- Short-term – called acute – floods, droughts, forest fires – which manifest themselves in one-off cases are recurring natural disasters that could render certain geographic areas or assets uninsurable, trigger asset devaluation, or lead to value chain disruption. If repeated, it can make business models unsustainable and lead to bankruptcy
- Long-term – called chronic– rise in temperature, air pollution, water shortage – they directly affect business models and financial results of companies, but also the health and productivity of individuals. The result could be lower yields in agriculture, a decrease in tourism activity, a change in work patterns and thus productivity, building structures that could require reconsideration in the case of real estate, and impacts on the health and demographics of the population (mortality and earning capacity).

Transition risks

Transition risks are financial risks that arise when public policy and changing consumer sentiment lead the economy on the path to aligning with the temperature goals of the Paris Treaty. In general, these are manifested as a CO_2 emission tax, CO_2 efficiency standards, deforestation restrictions and additionally stricter operational requirements, which directly affect the business model and financial performance, especially of sectoral activities with high greenhouse gas emissions. Ultimately, investor and consumer sentiment can affect asset prices and demand. Transition risks are generally manifested in the medium and long term.

Biodiversity loss

Emphasis is placed on the financial risks of biodiversity loss and soil degradation caused by human activity. In addition to climate change, which can destabilize ecosystems, other risks should be considered:

- Invasive species, where animals or plants have been moved to places where they damage existing ecosystems vrste,
- Change in land use, such as cutting down a forest to make way for agriculture or human habitation,
- Overexploitation of natural resources, where the resource is consumed faster than it can be replaced, e.g. overfishing,
- Air, land or water pollution

A number of additional variables can influence the likelihood and magnitude of the impact of climate risk drivers. These include: the bank's geographic location, assets or exposure, interactions and interdependencies between transmission channels and climate risk drivers that can amplify impacts and mitigations that reduce or neutralize impacts. Therefore, it is necessary to have a holistic view and understand not only the risks, but also their materiality and the channels of transmission to the financial system of influence on the classical types of risks (credit, market, liquidity, reputation and operational risk).

Social risks

Social risks arise from the financial impact generated by the misuse of human capital such as the rights, well-being and interests of people and communities. This could relate to working conditions, health and safety, employee relations and diversity, employee training, inclusiveness, equality, community programmes, child labour.
As examples of the materialization of such risks, we have identified:

- labour strikes and consumer protests that could lead to reputational damage as well as reduced productivity

4.b) Environmental, social and management risks (continued)

Social risks (continued)

- unsafe products, exposure to major geopolitical conflicts/regions with key human rights issues and associated social unrest increase business instability
- human rights violations

Management risks

Management risks refer to the management practices of counterparty institutions, including the inclusion of ESG factors in policies and procedures managed by counterparties. This may include, but is not limited to, executive pay, board diversity and composition, shareholder rights, bribery and corruption, compliance, ethical standards, fair tax strategy, etc.
The ESG risk management framework includes an assessment of client risk that is taken into account in the credit process. In addition, the Bank implements policies that define the treatment of sensitive sectors that represent an increased environmental and social risk (e.g. point of special sectoral policy for coal, nuclear energy, oil and gas), and monitors exposure to them.

4.c) Impact Assessment of the Russian-Ukrainian war

The Russia-Ukraine war began in February 2022 and soon after, economic sanctions were imposed on the Russian Federation by the US and the EU. The bank included the impact of the war on economic parameters such as GDP growth, inflation and interest rate increases in its "forward looking" information in the models for calculating credit losses. The mentioned impact on the calculation of credit losses is included in the calculation of provisions as of 31/12/2022 The Bank regularly monitors the development of the situation, and in 2023 no significant impact on the operations of the Bank and its clients was identified.

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 operative 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 and Raiffeisen MOD.
Shared services	Undertakes Group property management activities and centralised advertising and marketing services for the Group. Group member presented here is Raiffeisen Consulting.
Unallocated	Includes net costs from sold and written-off assets, other operating income (except dividends) and litigation provision costs. It additionally includes other assets and liabilities that are not allocated to other segments, as well as capital and reserves.

(all amounts are shown in HRK millions)

5. Segment reporting (continued)

2022

Group	Corporate	Retail	Treasury	Asset and Liability Management	Asset management	Shared services	Un-allocated	Total
Net interest income	227	522	54	38	33	-	-	874
Net fee and commission income	184	188	12	(4)	137	-	-	517
Trading and other income	164	45	31	53	319	14	36	662
Operating income	**575**	**755**	**97**	**87**	**489**	**14**	**36**	**2,053**
Operating expenses	(219)	(448)	(167)	(9)	(481)	(32)	(173)	(1,529)
Impairment losses	5	(62)	-	(1)	-	-	-	(58)
Provisions for liabilities and charges	(3)	(9)	-	-	-	-	(49)	(61)
Profit/(loss) before tax	**358**	**236**	**(70)**	**77**	**8**	**(18)**	**(186)**	**405**
Income tax expense	-	-	-	-	-	-	(68)	(68)
Profit/(loss) for the year	**358**	**236**	**(70)**	**77**	**8**	**(18)**	**(254)**	**337**
Segment assets	9,161	13,324	2,497	20,325	1,681	1	-	46,989
Unallocated assets	-	-	-	-	-	-	3,317	3,317
Total assets	**9,161**	**13,324**	**2,497**	**20,325**	**1,681**	**1**	**3,317**	**50,306**
Segment liabilities	18,421	19,895	914	791	1,667	2	3,096	44,786
Equity	-	-	-	-	-	-	5,520	5,520
Total equity and liabilities	**18,421**	**19,895**	**914**	**791**	**1,667**	**2**	**8,616**	**50,306**

(all amounts are shown in HRK millions)

5. Segment reporting (continued)

2021

Group	Corporate	Retail	Treasury	Asset and Liability Management	Asset management	Shared services	Un-allocated	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**

(all amounts are shown in HRK millions)

6. 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.

2022 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	-	-	-	-	13,599	13,599
Obligatory reserve with the Croatian National Bank	8	-	-	-	-	-	-
Financial assets at fair value through profit or loss	9	255	740	-	-	-	995
Fair value hedge	9a	239	-	-	-	-	239
Placements with and loans to other banks	10	-	-	-	-	1,912	1,912
Loans and advances to customers	11	-	-	-	-	23,951	23,951
Investment securities							
- measured at amortized cost	12a	-	-	-	-	4,483	4,483
- measured at fair value	12b	-	-	3,266	18	-	3,284
Other financial assets		-	-	-	-	95	95
Total financial assets		**494**	**740**	**3,266**	**18**	**44,040**	**48,558**
Financial liabilities							
Financial liabilities at fair value through profit or loss	20	71	-	-	-	-	71
Deposits from banks	21	-	-	-	-	812	812
Deposits from companies and other similar entities	22	-	-	-	-	17,734	17,734
Deposits from individuals	23	-	-	-	-	19,883	19,883
Borrowings	24	-	-	-	-	1,388	1,388
Debt securities issued	25	-	-	-	-	1,970	1,970
Lease liabilities	15a	-	-	-	-	54	54
Other financial liabilities		-	-	-	-	224	224
Subordinated liabilities	28	-	-	-	-	152	152
Total financial liabilities		**71**	**-**	**-**	**-**	**42,217**	**42,288**

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)

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		**545**	**1,347**	**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 securities 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**

(all amounts are shown in HRK millions)

6. Financial assets and financial liabilities (continued)

2022 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	-	-	-	-	13,571	13,571
Obligatory reserve with the Croatian National Bank	8	-	-	-	-	-	-
Financial assets at fair value through profit or loss	9	145	157	-	-	-	302
Fair value hedge	9a	239	-	-	-	-	239
Placements with and loans to other banks	10	-	-	-	-	1,878	1,878
Loans and advances to customers	11	-	-	-	-	23,293	23,293
Investment securities		-	-	-	-	-	-
- measured at amortized cost	12a	-	-	-	-	3,683	3,683
- measured at fair value	12b	-	-	3,266	18	-	3,284
Other financial assets		-	-	-	-	69	69
Total financial assets		**384**	**157**	**3,266**	**18**	**42,494**	**46,319**
Financial liabilities							
Financial liabilities at fair value through profit or loss	20	71	-	-	-	-	71
Deposits from banks	21	-	-	-	-	812	812
Deposits from companies and other similar entities	22	-	-	-	-	18,064	18,064
Deposits from individuals	23	-	-	-	-	19,883	19,883
Borrowings	24	-	-	-	-	1,970	1,970
Debt securities issued	25	-	-	-	-	549	549
Lease liabilities	15a	-	-	-	-	140	140
Other financial liabilities		-	-	-	-	211	211
Subordinated liabilities	28	-	-	-	-	152	152
Total financial liabilities		**71**	**-**	**-**	**-**	**41,781**	**41,852**

(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**	**-**	**-**	**-**	**35,595**	**35,664**

(all amounts are shown in HRK millions)

7. Cash and current accounts with banks

	Group 2022	Group 2021	Bank 2022	Bank 2021
Cash in hand	1,336	1,514	1,336	1,514
Giro account with the Croatian National Bank	12,002	8,573	12,002	8,573
Current accounts with other banks				
- with parent bank	151	5	151	4
- with other Raiffeisen Bank International AG ("the RBI") group banks*	40	8	13	8
- with other banks	70	74	69	64
	13,599	**10,174**	**13,571**	**10,163**
Impairment allowance		-		-
	13,599	**10,174**	**13,571**	**10,163**

*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

	Stage 1		Stage 1	
	Group 2022	Group 2021	Bank 2022	Bank 2021
At 1 January	-	-	-	-
Net charge recognised in profit or loss (Note 36)	-	-	-	-
At 31 December	**-**	**-**	**-**	**-**

(all amounts are shown in HRK millions)

8. Obligatory reserve with the Croatian National Bank

	Group 2022	Group 2021	Bank 2022	Bank 2021
Obligatory reserve in domestic currency	-	1,870	-	1,870
	-	**1,870**	**-**	**1,870**
Impairment allowance		-		-
	-	**1,870**	**-**	**1,870**

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

	Group 2022	Stage 1 Group 2021	Bank 2022	Stage 1 Group 2021
At 1 January	-	7	-	7
Net charge recognised in profit or loss (Note 36)	-	(7)	-	(7)
At 31 December	**-**	**-**	**-**	**-**

For banks, the CNB stipulates the obligation to calculate mandatory reserves, which is set aside as a deposit with the CNB and reflected in the balance of other liquid claims. The Decision on Amendments to the Decision on Required Reserves of the Croatian National Bank prescribes a transitional period of adaptation to the regulations of the European Central Bank, which is valid since the introduction of the euro as the national currency on 01 January 2023. The mentioned Decision stipulates the following:
- from 10 August 2022: reduction of the calculation rate for mandatory reserves from 9% to 5%
- from 14 December 2022: reduction of the calculation rate for mandatory reserves from 5% to 1% and
- from 14 December 2022 until 31 December 2022: transition to maintaining 100% reserve on HSVP accounts

During the maintenance period from 10 August 2022 until 13 December 2022, the percentage of allocation of the kuna part of the mandatory reserve amounted at 70%. During the maintenance period from 14 December 2022 until 31 December 2022, the percentage of allocation of the kuna part of the mandatory reserve amounted at 0%.

(all amounts are shown in HRK millions)

9. Financial assets at fair value through profit or loss

	Group 2022	Group 2021	Bank 2022	Bank 2021
Financial assets mandatorily measured at fair value through profit or loss:				
Non derivative trading assets:				
Debt securities:				
- Domestic government bonds, listed	-	330	-	330
- Foreign government bonds, listed	-	-	-	-
- Securities issued by companies, listed	6	57	6	57
- Treasury bills issued by the Ministry of Finance	37	-	37	
	43	**387**	**43**	**387**
Derivative trading assets:				
Positive fair value of OTC derivative instruments	89	70	89	79
	89	**70**	**89**	**79**
Non-trading financial assets mandatorily measured at fair value through profit or loss				
Equity securities	13	24	13	24
Investments in investment funds managed by related persons and third parties	110	64	-	-
	123	**88**	**13**	**24**
Loans, mandatorily measured at fair value through profit or loss	**-**	**-**	**-**	36
Total financial assets mandatorily measured at fair value through profit or loss	**255**	**545**	**145**	**526**
Financial assets designated at option fair value through profit or loss				
Non derivative trading assets:				
Debt securities:				
- Domestic government bonds, listed	327	836	-	-
- Bonds issued by banks, listed	81	76	46	47
- Securities issued by companies, listed	145	211	111	174
- Treasury bills issued by the Ministry of Finance	65	219	-	-
- Treasury bills issued by foreign countries	122	-	-	-
Total financial assets at fair value option through profit or loss	**740**	**1,342**	**157**	**221**
	995	**1,887**	**302**	**747**

Investment in treasury bills issued by the Republic of Croatia Ministry of Finance in the amount of HRK 50 million (2021: HRK 59 million) in the Group represent the guarantee deposit in accordance with the Law on Mandatory Pension Funds and Law on Voluntary Pension Funds.

(all amounts are shown in HRK millions)

9.a) Fair value hedge

	Group 2022	Group 2021	Banka 2022	Banka 2021
Interest rate swap	239	5	239	5
	239	**5**	**239**	**5**

10. Placements with and loans to other banks

	Group 2022	Group 2021	Bank 2022	Bank 2021
Loans and deposits at amortised cost				
- Loans	525	15	525	16
- Deposits	1,387	79	1,353	60
	1,912	**94**	**1,878**	**76**
Impairment allowance	-	-	-	-
	1,912	**94**	**1,878**	**76**

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

Group	**2022**		**2021**	
	Stage 1	**Total**	**Stage 1**	**Total**
At 1 January	-	-	-	-
Net release recognised in profit or loss (Note 36)	-	-	-	-
At 31 December	**-**	**-**	**-**	**-**

Bank

	2022		**2021**	
	Stage 1	**Total**	**Stage 1**	**Total**
At 1 January	-	-	-	-
Net release recognised in profit or loss (Note 36)	-	-	-	-
At 31 December	**-**	**-**	**-**	**-**

(all amounts are shown in HRK millions)

11. Loans and advances to customers

	Group 2022	Group 2021	Bank 2022	Bank 2021
Loans to companies and similar entities at amortised cost				
- denominated in domestic currency	1,967	2,300	2,106	2,399
- denominated in or linked to foreign currency	5,879	5,115	6,191	5,380
Loans to state and public sector at amortised cost				
- denominated in domestic currency	13	387	13	387
- denominated in or linked to foreign currency	2,030	719	2,030	719
Loans to individuals at amortised cost				
- denominated in domestic currency	6,128	7,529	6,128	7,398
- denominated in or linked to foreign currency	7,813	5,731	7,813	5,216
Finance lease receivables, denominated in or linked to foreign currency	1,123	880	-	-
	24,953	**22,661**	**24,281**	**21,499**
Impairment allowance	(1,002)	(1,013)	(988)	(976)
	23,951	**21,648**	**23,293**	**20.523**

(all amounts are shown in HRK millions)

11. Loans and advances to customers (continued)

The following tables below present the exposures across credit risk levels at 31 December 2021 and 31 December 2022:

Group

2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers					
Low risk	9,493	186	-	5	9,684
Medium risk	8,182	1,564	-	32	9,778
High risk	464	1,101	-	16	1,581
Default	-	-	592	196	788
Without rating	2,955	36	114	17	3,122
Balance sheet impairment allowance	(137)	(298)	(471)	(96)	(1,002)
Carrying amount	**20,957**	**2,589**	**235**	**170**	**23,951**

Bank

2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers					
Low risk	9,558	183	-	5	9,746
Medium risk	7,838	1,547	-	32	9,417
High risk	431	1,067	-	16	1,514
Default	-	-	558	196	754
Without rating	2,691	32	110	17	2,850
Balance sheet impairment allowance	(135)	(297)	(460)	(96)	(988)
Carrying amount	**20,383**	**2,532**	**208**	**170**	**23,293**

(all amounts are shown in HRK millions)

11. Loans and advances to customers (continued)

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**
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)

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

Group 2022	Stage 1	Stage 2	Stage 3	POCI	Total
On-balance sheet exposure Gross carrying amount at 1 January	**17,461**	**4,063**	**838**	**299**	**22,661**
New approvals	10,074	689	56	40	**10,859**
Derecognition (not including write-off)	(4,169)	(510)	(74)	(9)	**(4,762)**
Transfer to Stage 1	1,983	(1,914)	(63)	(6)	**-**
Transfer to Stage 2	(1,193)	1,245	(52)	-	**-**
Transfer to Stage 3	(117)	(147)	264	-	**-**
POCI	-	-	(5)	5	**-**
Amounts recovered during the year	(2,953)	(535)	(165)	(58)	**(3,711)**
Write-offs	(2)	(5)	(93)	(5)	**(105)**
Effects of exchange differences	10	1	-	-	**11**
At 31 December	**21,094**	**2,887**	**706**	**266**	**24,953**

Bank 2022	Stage 1	Stage 2	Stage 3	POCI	Total
On-balance exposure Gross carrying amount at 1 January	**16,602**	**3,828**	**772**	**297**	**21,499**
New approvals	9,580	684	56	40	**10,360**
Derecognition (does not include write-off)	(3,623)	(428)	(61)	(7)	**(4,119)**
Transfer to Stage 1	1,933	(1,864)	(63)	(6)	**-**
Transfer to Stage 2	(1,174)	1,226	(52)	-	**-**
Transfer to Stage 3	(116)	(145)	261	-	**-**
POCI	-	-	(5)	5	**-**
Amounts recovered during the year	(2,692)	(468)	(147)	(58)	**(3,365)**
Write-offs	(2)	(5)	(93)	(5)	**(105)**
Effects of exchange differences	10	1	-	-	**11**
At 31 December	**20,518**	**2,829**	**668**	**266**	**24,281**

(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**
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 write-offs)	(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	**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 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Allowance for expected credit losses at 1 January	**67**	**238**	**577**	**131**	**1,013**
Derecognition (not including write-offs)	(8)	(21)	(42)	(2)	(73)
Transfer to Stage 1	152	(102)	(47)	(3)	-
Transfer to Stage 2	(7)	41	(34)	-	-
Transfer to Stage 3	(2)	(22)	24	-	-
POCI	-	-	(3)	3	-
Increase/release of provisions	(65)	165	87	(28)	159
Write-offs	-	(1)	(91)	(5)	(97)
Effects of exchange differences	-	-	-	-	-
At 31 December	**137**	**298**	**471**	**96**	**1,002**

Bank 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Allowance for expected credit losses at 1 January	**65**	**235**	**546**	**130**	**976**
Derecognition (not including write-offs)	(7)	(20)	(31)	(1)	(59)
Transfer to Stage 1	152	(102)	(47)	(3)	-
Transfer to Stage 2	(7)	41	(34)	-	-
Transfer to Stage 3	(2)	(22)	24	-	-
POCI	-	-	(3)	3	-
Increase/release of provisions	(66)	166	96	(28)	168
Write-offs	-	(1)	(91)	(5)	(97)
Effects of exchange differences	-	-	-	-	-
At 31 December	**135**	**297**	**460**	**96**	**988**

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**

11. Loans and advances to customers (continued)

(all amounts are shown in HRK millions)

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

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**

For additional reconciliation, Note 51. *Risk management*

In 2022, the Bank based on the recabriliation of forward looking component recorded release of provisions in the amount of HRK 54 million (PI and micro) and HRK 5.4 million in non-retail segment as a result of reducing of non-performing exposures. 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 2022, the Bank realized profit of HRK 42.3 million (total received HRK 44.1 million, and of this, HRK 1.8 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 120.8 million (loans to customer and other receivables HRK 108 million and off-balance receivables of HRK 12.8 million). Loans to private individuals were HRK 105 million (on-balance receivables HRK 95.5 million and off-balance receivables HRK 9.5 million, and loans to other customers HRK 15.8 million (HRK 12.5 million on-balance and HRK 3.3 million off-balance receivables). Net value of the sold on-balance placements of private individuals was HRK 4.7 million and placements of other customers HRK 1.1 million.

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. 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.

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.

(all amounts are shown in HRK millions)

11. Loans and advances to customers (continued)

	Group 2022			Bank 2022		
	Total exposure	**Impairment allowance**	**Collateral**	**Total exposure**	**Impairment allowance**	**Collateral**
Balance exposure for loans to customers						
Stage 1	14,909	52	16,724	13,882	50	15,840
Stage 2	2,026	220	3,123	1,969	219	3,048
Stage 3	519	290	804	481	279	772
	17,454	**562**	**20,651**	**16,332**	**548**	**19,660**

	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	19	11,640
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**

The table below show the market value of collateral at 31 December 2022 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 2022**	**Bank 2022**	**Group 2021**	**Bank 2021**
Commercial property	4,813	4,758	4,285	4,227
Cash deposits	232	232	200	198
Securities	-	-	4	4
Guarantees and similar instruments	159	159	1,475	1,470
Funds	-	-	10	10
Movable property	1,260	325	1,027	268
Other collateral types	1,681	1,681	29	29
Residential property	12,506	12,505	11,068	10,177
	20,651	**19,660**	**18,098**	**16,383**

(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 2022	**Group 2021**
Gross investment in finance leases	1,207	934
Deferred fee income	(3)	(3)
Unearned finance income	(81)	(51)
Net investment in finance leases	**1,123**	**880**
Impairment losses	(13)	(23)
Net investment in finance leases	**1,110**	**857**

(all amounts are shown in HRK millions)

11. Loans and advances to customers (continued)

b) Finance lease receivables

This disclosure is illustrative since there are no irrevocable leases.

	Group 2022	Group 2021
Up to 1 year	415	340
1 – 2 years	310	257
2 – 3 years	221	177
3 – 4 years	170	97
4 – 5 years	69	44
More than 5 years	22	19
Undiscounted lease payments	**1,207**	**934**
Less: unearned finance income	(84)	(54)
Present value of lease payments receivable	1,123	880
Impairment loss allowance	(13)	(23)
Net investment in the lease	**1,110**	**857**
Undiscounted lease payments analysed as:	1,207	934
Recoverable after 12 months	792	594
Recoverable within 12 months	415	340
Net investment in the lease analysed as:	1,110	857
Recoverable after 12 months	742	543
Recoverable within 12 months	368	314

(all amounts are shown in HRK millions)

11. Loans and advances to customers (continued)

c) Finance lease receivables

Effects from lease sales	**Group 2022**	**Group 2021**
Selling profit/loss from finance lease	1	-

12. a) Investment securities measured at amortized cost

	Group 2022	**Group 2021**	**Bank 2022**	**Bank 2021**
Investment securities measured at amortised cost				
Debt securities:				
- Domestic government bonds, listed	2,829	1,639	2,276	1,242
- Corporate bonds, listed	20	84	20	84
- Foreign banks bonds, listed	1,219	215	1,052	215
- Foreign government bonds, listed	265	600	209	600
- Foreign corporate bonds	151	39	127	39
	4,484	**2,577**	**3,684**	**2,180**
Impairment allowance	(1)	-	(1)	-
Total investment securities measured at amortised cost	**4,483**	**2,577**	**3,683**	**2,180**

Stage 1	**Group 2022**	**Group 2021**	**Bank 2022**	**Bank 2021**
At 1 January	**-**	**8**	**-**	**8**
Net charge to profit or loss (Note 36)	1	(8)	1	(8)
At 31 December	**1**	**-**	**1**	**-**

Foreign government bonds relate to securities issued by the Republic of Lithuania, the Republic of Poland, the United States of America, the Republic of Slovenia, the Republic of Bulgaria, the Republic of France and the Kingdom of Spain.
Investment securities measured at amortised cost are Stage 1 due to the estimated low risk.

(all amounts are shown in HRK millions)

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

	Group 2022	Group 2021	Bank 2022	Bank 2021
Debt securities:				
- Domestic government bonds, listed	1,588	2,671	1,588	2,496
- Bonds issued by banks, listed	443	675	443	675
- Bonds issued by companies, listed	72	53	72	53
- Foreign government bonds, listed	417	663	417	663
- Treasury bills issued by the Ministry of Finance	746	527	746	527
- Treasury bills issued by foreign countries	-	-	-	-
	3,266	4,589	3,266	4,414
Equity securities:				
- not listed	16	8	16	8
- listed	2	3	2	3
	18	11	18	11
Total investment securities at fair value through other comprehensive income	**3,284**	**4,600**	**3,284**	**4,425**
of which impairment allowance	(1)	-	(1)	-

Stage 1	Group 2022	Group 2021	Bank 2022	Bank 2021
At 1 January	**-**	**15**	**-**	**14**
Net charge /(release) to profit or loss (Note 36)	1	(15)	1	(14)
At 31 December	**1**	**-**	**1**	**-**

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, the Slovak Republic, European Investment Bank (EIB) and European Financial Stability Fund (ESFS).
Investment securities at fair value through other comprehensive income are in Stage 1 due to the estimated low risk.

(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 2022 and 31 December 2021:

	Nature of business	Ownership 2022 %	Ownership 2021 %	Acquisition cost 2022	Impairment allowance 2022	Investments in subsidiaries 2022	Acquisition cost 2021	Impairment allowance 2021	Investments in subsidiaries 2021
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	-	-	-	56	-	56
Raiffeisen Consulting d.o.o.	Financial and consulting services	100	100	105	(11)	94	105	(11)	94
Raiffeisen Leasing d.o.o.	Leasing	100	100	57	-	57	57	-	57
Raiffeisen mirovinsko osiguravajuće društvo d.d.	Pension insurance	100	100	98	(92)	6	23	-	23
Raiffeisen Invest d.o.o.	Investment fund management	-	100	-	-	-	-	-	-
Indirect holding									
Raiffeisen Bonus d.o.o.	Insurance and re-insurance intermediary	-	100	-	-	-	-	-	-
Total				**404**	**(103)**	**301**	**385**	**(11)**	**374**

Impairment allowances	**2022**	**2021**
At January 1	**11**	**9**
Net charge to profit or loss (note 35)	92	2
At December 31	**103**	**11**

(all amounts are shown in HRK millions)

13. Investments in subsidiaries (continued)

Impairment allowances	**2021**	**2020**
At January 1	**9**	**9**
Net charge to profit or loss (note 35)	2	-
At December 31	**11**	**9**

Raiffeisen mirovinsko osiguravajuće društvo d.d.

Impairment allowance of the Bank's investment in Raiffeisen mirovinsko osiguravajuće društvo d.d. was a result of the unfavourable macroeconomic indicators in the year 2022, which had a significant negative impact on the parameters used to evaluate this investment.

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.

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 which ended on June 13, 2022. 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.

Merger of Raiffeisen stambena štedionica d.d.

On 2 May 2022, Raiffeisen stambena štedionica was legally merged with the Bank, which was reported to the regulator. The status change of the merger of the company with the Bank was executed through registration in the companies register at the Commercial Court in Zagreb, and the merger was thereupon rendered valid. The merger was carried out as an acquisition under joint control at the carrying amounts, therefore there was no effect of the merger.

The acquired assets and liabilities of Raiffeisen stambena štedionica d.d. at the merger date, 2 May 2022, are stated in accordance with the Bank's methodology.

13. Investments in subsidiaries (continued)

In HRK thousands	Note	Carrying amount	Fair value adjustment	Total acquired
Assets				
Cash and current accounts with banks	7	272,686	-	272,686
Placements with and loans to other banks	10	-	-	-
Investment securities measured at amortized cost	12a	53,927	-	53,927
Investment securities at fair value through other comprehensive income	12b	144,434	-	144,434
Loans and advances to customers	11	597,261	-	597,261
Intangible assets	16	536	-	536
Property, plant and equipment	14a	169	-	169
Right of use assets	15	-	-	-
Deferred tax assets	17	-	-	-
Other assets	18	245	-	245
Total assets		**1,069,258**	**-**	**1,069,258**
Liability				
Deposits from individuals	23	907,379	-	907,379
Subordinated liabilities	28	36,443	-	36,443
Other liabilities	27a	7,928	-	7,928
Provisions for liabilities and charges	26	-	-	-
Financial liabilities at fair value through profit or loss	20	121	-	121
Lease liabilities	15a	-	-	-
Tax liabilities		283	-	283
Deferred tax liability		126	-	126
Total liabilities		**952,280**	**-**	**952,280**
Equity				
Share capital	38	180,000	-	180,000
Fair value reserve	40	(3,101)	-	(3,101)
Retained (loss)		(68,547)	-	(68,547)
Profit for the year		8,626	-	8,626
Total equity		**116,978**	**-**	**116,978**
Total liabilities and equity		**1.069.258**	**-**	**1.069.258**

	Book value
Investments in subsidiaries	(56)
Share capital	180
Retained (loss)	(69)
Impact on the Bank's retained earnings	**55**

(all amounts are shown in HRK millions)

14. a) Property, plant and equipment

Group

2022	Land	Buildings	Equipment	Office furniture	Assets under construction	Total
Gross carrying amount						
At 1 January 2022	53	728	418	54	10	1,263
Reclassification in Property, plant and equipment under operating lease (Note 14c)	-	-	-	-	-	-
Additions	-	-	-	-	67	67
Disposals	-	-	(23)	(7)	-	(30)
Transfer into use	-	-	60	5	(65)	-
At 31 December 2022	**53**	**728**	**455**	**52**	**12**	**1,300**
Accumulated depreciation and impairment allowance						
At 1 January 2022	-	246	269	45	-	560
Charge for the year (Note 35a)	-	12	39	2	-	53
Disposals and transfer	-	-	(23)	(7)	-	(30)
At 31 December 2022	**-**	**258**	**285**	**40**	**-**	**583**
Carrying amount						
At 1 January 2022	**53**	**482**	**149**	**9**	**10**	**703**
At 31 December 2022	**53**	**470**	**170**	**12**	**12**	**717**

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 190 million (2021: HRK 195 million) was pledged to the Bank as security for the approved loan.

The Management believes that fair value of property, plant and equipment is close to its carrying amount.

(all amounts are shown in HRK millions)

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

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 35a)	-	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.
The Management believes that fair value of property, plant and equipment is close to its carrying amount.

(all amounts are shown in HRK millions)

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

Bank

2022	**Land**	**Buildings**	**Equipment**	**Office furniture**	**Assets under construction**	**Total**
Gross carrying amount						
At 1 January 2022	28	411	394	54	11	898
Additions	-	-	-	-	66	66
Disposals	-	-	(20)	(7)	-	(27)
Merger of a related company	-	-	-	1	-	1
Transfer into use	-	-	58	5	(63)	0
At 31 December 2022	**28**	**411**	**432**	**53**	**14**	**938**
Accumulated depreciation						
At 1 January 2022	-	120	257	45	-	422
Charge for the year (Note 35a)	-	7	37	2	-	46
Disposals	-	-	(20)	(7)	-	(27)
Merger of a related company	-	-	-	1	-	1
At 31 December 2022	**-**	**127**	**274**	**41**	**-**	**442**
Carrying amount						
At 1 January 2022	**28**	**291**	**137**	**9**	**11**	**476**
At 31 December 2022	**28**	**284**	**158**	**12**	**14**	**496**

Assets under construction relates to equipment at cost of HRK 14 million (2021: HRK 11 million).

There was no pledged assets in the current year (2021: nil).

There were no capitalised borrowing costs of acquisition of property, plant and equipment during the year (2021: nil).

(all amounts are shown in HRK millions)

14. a) Property, plant and equipment (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 (Note 14c)	-	(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).

There was no pledged assets in the current year (2020: nil).

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

(all amounts are shown in HRK millions)

14. b) Investment property

Group

	Investment property
Gross carrying amount	
At 31 January 2021	62
Adjustments from previous years	2
Transfer to Non-current assets held for sale	(26)
Additions	101
Disposals	(1)
At 31 December 2021	**138**
At 1 January 2022	**138**
Additions	3
Disposals	-
At 31 December 2022	**141**
Accumulated depreciation	-
At 1 January 2021	**5**
Adjustments from previous years	(3)
Charge for the year (Note 35a)	1
Disposals	(1)
At 31 December 2021	**2**
At 1 January 2022	**2**
Charge for the year (Note 35a)	3
Disposals	-
At 31 December 2022	**5**
Carrying amount	
At 31 December 2021	**136**
At 31 December 2022	**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: *Investment property* 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 2022.

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

2022	**Buildings**	**Equipment**	**Motor vehicles and vessels**	**Assets under construction**	**Total**
Gross carrying amount					
At 1 January 2022	**34**	**11**	**140**	**-**	**185**
Additions	1	-	-	43	44
Transfer to Non-current assets held for sale	-	-	(6)	-	(6)
Disposals	-	(3)	(25)	-	(28)
Transfer into use	-	-	43	(43)	-
At 31 December 2022	**35**	**8**	**152**	**-**	**195**
Accumulated depreciation					
At 1 January 2022	7	4	45	-	56
Charge for the year (Note 35a)	1	1	22	-	24
Disposals	-	(3)	(19)	-	(22)
At 31 December 2022	**8**	**2**	**48**	**-**	**58**
Carrying amount					
At 1 January 2022	**27**	**7**	**95**	**-**	**129**
At 31 December 2022	**27**	**6**	**104**	**-**	**137**

In the position „Transfer to Non-current assets held for sale" the motor vehicles that Raiffeisen leasing d.o.o. acquires after the ending of leasing contracts are shown. Motor vehicles in the amount of HRK 4 million were leased again, while HRK 2 million are sold during the year 2022. At December 31, 2022 Raiffeisen leasing d.o.o. reports in the position non-current asset held for sale vehicles in the amount of HRK 170 thousands.

(all amounts are shown in HRK millions)

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

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**
Carrying amount					
At 1 January 2021	**9**	**6**	**104**	**-**	**119**
At 31 December 2021	**27**	**7**	**95**	**-**	**129**

(all amounts are shown in HRK millions)

15. Right of use assets

Group

2022	Buildings	Equipment	Total
Gross carrying amount			
At 1 January 2022	47	3	50
Additions	32	-	32
Disposals	(5)	-	(5)
At 31 December 2022	**74**	**3**	**77**
Accumulated depreciation			
At 1 January 2022	16	3	19
Charge for the year (Note 35a)	9	-	9
Disposals	(5)	-	(5)
At 31 December 2022	**20**	**3**	**23**
Carrying amount			
At 1 January 2022	**31**	**-**	**31**
At 31 December 2022	**54**	**-**	**54**

(all amounts are shown in HRK millions)

15. Right of use assets (continued)

Group 2021	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**

(all amounts are shown in HRK millions)

15. Right of use assets (continued)

Bank 2022	Buildings	Equipment	Total
Gross carrying amount			
At 1 January 2022	178	7	185
Additions	32	1	33
Disposals	(5)	-	(5)
At 31 December 2022	**205**	**8**	**213**
Accumulated depreciation			
At 1 January 2022	56	4	60
Charge for the year (Note 35a)	20	2	22
Disposals	(5)	-	(5)
At 31 December 2022	**71**	**6**	**77**
Carrying amount			
At 1 January 2022	**122**	**3**	**125**
At 31 December 2022	**134**	**2**	**136**

Bank 2021	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**

(all amounts are shown in HRK millions)

15. a) Lease liabilities

	Group 2022	Group 2021	Bank 2022	Bank 2021
Short-term lease liabilities	10	19	21	18
Long-term lease liabilities	44	12	119	110
	54	**31**	**140**	**128**

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 2022	Group 2021	Bank 2022	Bank 2021
Depreciation of right-of-use assets				
Buildings (Note 35 a)	9	7	20	21
Equipment (Note 35 a)	-	-	2	2
Interest payable (Note 30)	1	-	2	3
Cost of short-term leases (Note 35)	-	-	1	1
Cost of leases for which underlying asset is of low value	8	8	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 2022	Goodwill	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount					
At 1 January 2022	27	214	932	25	1,198
Additions	-	-	-	89	89
Disposals	-	(28)	(36)	-	(64)
Merger of a related company	-	-	33	-	33
Transfer into use	-	12	84	(96)	-
At 31 December 2022	**27**	**198**	**1,013**	**18**	**1,256**
Accumulated amortisation					
At 1 January 2022	-	159	638	-	797
Charge for the year (Note 35a)	-	10	49	-	59
Merger of a related company	-	-	33	-	33
Disposals	-	(27)	(19)	-	(46)
At 31 December 2022	**-**	**142**	**701**	**-**	**843**
Carrying amount					
At 1 January 2022	**27**	**55**	**294**	**25**	**401**
At 31 December 2022	**27**	**56**	**312**	**18**	**413**

Assets under construction mainly comprise software in the process of installation in the amount of HRK 16 million (2021: HRK 25 million).

The reported goodwill resulted from the acquisition of a 100% share in Raiffeisen Leasing d.o.o. in 2016. The 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 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 35a)	-	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 25 million (2020: HRK 34 million).

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

(all amounts are shown in HRK millions)

16. Intangible assets (continued)

Bank 2022	**Leasehold improvement**	**Software**	**Assets under construction**	**Total**
Gross carrying amount				
At 1 January 2022	211	879	25	1,115
Additions	-	-	87	87
Disposals	(28)	(36)	-	(64)
Merger of a related company	-	33	-	33
Transfer into use	12	83	(95)	-
At 31 December 2022	**195**	**959**	**17**	**1,171**
Accumulated amortisation				
At 1 January 2022	157	590	-	747
Charge for the year (Note 35a)	10	47	-	57
Disposals	(27)	(19)	-	(46)
Merger of a related company	-	33	-	33
At 31 December 2022	**140**	**651**	**-**	**791**
Carrying amount				
At 1 January 2022	**54**	**289**	**25**	**368**
At 31 December 2022	**55**	**308**	**17**	**380**

Assets under construction mainly comprise software in the process of installation in the amount of HRK 17 million (2021: HRK 25 million).

(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 35a)	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 25 million (2020: HRK 32 million).

(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**	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Property, plant, equipment and investment property	-	-	-	-	-	1	-	-
Deferred fee and commission expense (Note 30;32)	-	-	(1)	-	(1)	1	-	-
Deferred fee and commission income (Note 29;31)	8	9	-	-	(1)	-	-	-
Recognition of deferred tax assets at the level of the Group (Note 35)	19	2	-	-	17	-	-	-
Recognised tax loss	-	-	-	-	-	(1)	-	-
Unrealised gains on financial instruments at fair value through profit or loss (Note 33)	14	16	-	-	(2)	(22)	-	-
Other provisions (Note 26)	40	36	-	-	4	9	-	- -
Deferred tax assets/(liabilities)	**81**	**63**	**(1)**	**-**	**17**	**(12)**	**-**	**-**
Unrealised gains on financial instruments at fair value through other comprehensive income	24	(4)	-	-	-	-	28	5
Offset	(1)	-	(1)	-	-	-	-	-
Net deferred tax assets	**104**	**59**	**-**	**-**	**17**	**(12)**	**28**	**5**

The offset 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**
	2022	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Deferred fee and commission expense	-	-	-	-	-	-	-	-
Deferred fee and commission income (Note 29;31)	5	5	-	-	-	-	-	-
Unrealised gains on financial instruments at fair value through profit or loss (Note 33)	14	15	-	-	(1)	(22)	-	-
Impairment allowance of investments in subsidiaries (Note 35)	19	2	-	-	17	-	-	-
Recognised tax losses	-	-	-	-	-	-	-	-
Other provisions (Note 26)	36	31	-	-	5	10	-	-
Deferred tax assets/(liabilities)	**74**	**53**	**-**	**-**	**21**	**(12)**	-	-
Unrealised gains on financial instruments at fair value through other comprehensive income	24	(4)	-	-	-	-	28	5
Net deferred tax assets	**98**	**49**	**-**	**-**	**21**	**(12)**	**28**	**5**

(all amounts are shown in HRK millions)

18. Other assets

	Group 2022	Group 2021	Bank 2022	Bank 2021
Receivables from credit and debit cards	89	36	89	36
Advances	59	34	50	26
Inventory and foreclosed assets	29	37	29	33
Accrued fees and commission	24	32	11	20
Accrued costs	25	22	17	12
Receivables from repurchase of domestic and foreign currency cash	-	2	-	2
Receivables from securities	17	-	17	-
Pre-tax receivables	28	-	-	-
Other	29	21	19	12
	300	**184**	**232**	**141**
Impairment allowance	(18)	(19)	(18)	(18)
	282	**165**	**214**	**123**

Major part of amounts shown in position *Other* refer to litigation receivables and receivables from employees.

Movement in impairment allowance

Group	Stage 3	Stage 2	Stage 1	2022 Total	Stage 3	Stage 2	Stage 1	2021 Total
At 1 January	**15**	**-**	**4**	**19**	**20**	**-**	**4**	**24**
Provisions created during the year	5	-	-	5	2	-	-	2
Provisions released during the year	-	-	(2)	(2)	-	-	-	-
Net charge/(release) recognised in profit or loss (Note 36)	5	-	(2)	3	2	-	-	2
Write offs	(4)	-	-	(4)	(7)	-	-	(7)
At 31 December	**16**	**-**	**2**	**18**	**15**	**-**	**4**	**19**

(all amounts are shown in HRK millions)

18. Other assets (continued)

Bank	Stage 3	Stage 2	Stage 1	2022 Total	Stage 3	Stage2	Stage 1	2021 Total
At 1 January	**14**	**-**	**4**	**18**	**16**	**-**	**4**	**20**
Provisions created during the year	5	-	-	5	2	-	-	2
Provisions released during the year	-	-	(2)	(2)	-	-	-	-
Net charge/(release) recognised in profit or loss (Note 36)	5	-	(2)	3	2	-	-	2
Write offs	(3)	-	-	(3)	(4)	-	-	(4)
At 31 December	**16**	**-**	**2**	**18**	**14**	**-**	**4**	**18**

19. Non-current assets held for sale and discontinuing operations

	Group 2022	Group 2021	Bank 2022	Bank 2021
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 Non-current assets held for sale and discontinuing operations were realized. The sale was realized in January31, 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 Non-current assets held for sale and discontinuing operations were met. The sale was realised in July 2022.

(all amounts are shown in HRK millions)

20. Financial liabilities at fair value through profit or loss

	Group 2022	Group 2021	Bank 2022	Bank 2021
Trading instruments				
Negative fair value of OTC derivative instruments	49	60	49	59
Negative fair value of OTC spot transactions	-	-	-	-
- Interest rate swap – hedge of the individual items	21	-	21	-
- Interest rate swap – hedge accounting	1	10	1	10
	71	**70**	**71**	**69**

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**	
2022	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Trading derivative instruments (Note 9)				
- FX forward contracts – OTC	2,417	2,867	17	26
- Interest rate swap contracts – OTC	638	744	72	23
Futures	55	-	-	-
	3,110	**3,611**	**89**	**49**
Unsettled trading with currencies – OTC	**-**	**-**	**-**	**-**
Hedging derivative instruments				
- Interest rate swap contracts - OTC				
Micro hedge	2,005	1,507	226	21
Portfolio hedge	112	-	13	1
	2,117	**1,507**	**239**	**22**

(all amounts are shown in HRK millions)

20. a) Derivative instruments and foreign currency trading

Group 2021 Trading derivative instruments	Notional amount Assets	 Liabilities	Fair value Assets	 Liabilities
- 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**	**-**	**-**
Derivative instruments for hedge accounting				
- Interest rate swap contracts - OTC				
Micro hedge	244	-	5	-
Portfolio hedge		112		10
	244	**112**	**5**	**10**

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, investment securities measured at amortised cost and issued securities, while portfolio hedge relates to the loans to individuals.

Bank 2022 Trading derivative instruments	Notional amount Assets	 Liabilities	Fair value Assets	 Liabilities
- FX forward contracts – OTC	2,417	2,867	17	26
- Interest rate swap contracts - OTC	638	744	72	23
	3,055	**3,611**	**89**	**49**
Unsettled trading with currencies – OTC	**-**	**-**	**-**	**-**
Hedging derivative instruments				
- Interest rate swap contracts - OTC				
Hedge of individual items	2,005	1,507	226	21
Portfolio hedge	112	-	13	1
	2,117	**1,507**	**239**	**22**

(all amounts are shown in HRK millions)

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

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

(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)	
	2022	**2021**	**2022**	**2021**	**2022**	**2021**
	%	**%**				
Hedged item – loan to customers (Note 11) – corporate – hedge of individual items						
With maturity up to 5 years	0.68	2.9	854	63	(42)	-
With the maturity over 5 years	2.20	-	43	-	(4)	-
Hedging instrument – interest rate swap, maturity from 1 to 5 years, hedge of individual items						
With maturity up to 5 years (Note 20)	0.60	(0.17)	854	63	43	-
With the maturity over 5 years (Note 20)	1.33	(0.17)	4	62	4	-
Hedged item – investment securities – hedge of individual items (Note 12a)						
With the maturity over 5 years	2.35	1.20	1,108	180	(164)	4
Hedging instrument – interest rate swap – hedge of individual items (Note 9a) With maturity over 5 years	1.15	0.09	1,108	180	161	5
Hedged item – debt securities issued – hedge of individual items (Note 25) with the maturity over 5 years	5.6	-	1,507	-	13	-
Hedging instrument – interest rate swap – hedge of individual items (Note 9a) With the maturity over 5 years	2.20	-	1,507	-	(3)	-
Hedged item – loan to customers (Note 11) – individuals – portfolio hedge						
With maturity up to 5 years	0.98	0.93	39	21	(3)	1
With the maturity over 5 years	1.30	1.25	73	91	(9)	9
Hedging instrument – interest rate swap, portfolio hedge						
With maturity up to 5 years (Note 20)	0.98	0.93	39	21	3	1
With the maturity over 5 years (Note 20)	1.30	1.25	73	91	9	9

The effectiveness ratio of hedge of individual items for 2022 was 100.32% (2021: 100.04%). The effectiveness ratio of portfolio hedge for 2022 was 93.19% (2021: 107.95%).

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

Fair value hedge accounting – interest rate risk (continued)

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.

2022 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	-	-	Gains less losses from trading financial instruments
Financial liabilities at fair value through profit or loss – portfolio hedge	-	-	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 ineffectivenes s**	**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**
(46)	Loan to customers – corporate – hedge of individual items	-	-
(14)	Loan to customers – individuals – portfolio hedge	-	1
(164)	Investment securities measured at amortised cost	-	-
13	Debt securities issued	-	-

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 ineffectivenes s**	**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	-	-

(all amounts are shown in HRK millions)

21. Deposits from banks

	Group 2022	Group 2021	Bank 2022	Bank 2021
Current accounts and demand deposits				
- from parent bank	282	9	282	9
- from RBI group banks other than parent bank	3	9	3	263
- from other banks	395	247	395	248
Time deposits				
- from other banks	132	21	132	21
	812	**286**	**812**	**541**

22. Deposits from companies and other similar entities

	Group 2022	Group 2021	Bank 2022	Bank 2021
Current accounts and demand deposits	16,774	14,801	17,093	15,024
Time deposits	960	417	971	426
	17,734	**15,218**	**18,064**	**15,450**

23. Deposits from individuals

	Group 2022	Group 2021	Bank 2022	Bank 2021
Current accounts and demand deposits	15,825	13,557	15,825	13,557
Time deposits	4,058	4,766	4,058	3,814
	19,883	**18,323**	**19,883**	**17,371**

24. Borrowings

	Group 2022	Group 2021	Bank 2022	Bank 2021
From ultimate parent bank	363	326	113	5
From other banks	406	385	32	71
From HBOR	619	374	404	372
	1,388	**1,085**	**549**	**448**

(all amounts are shown in HRK millions)

24. Borrowings (continued)

Movements of outstanding borrowings

	Group 2022	Group 2021	Bank 2022	Bank 2021
At 1 January	1,085	2,834	448	2,066
New borrowings	17,355	10,520	16,879	10,332
Repayment of borrowings	(17,056)	(12,266)	(16,780)	(11,949)
Foreign exchange differences	4	(3)	2	(1)
At 31 December	**1,388**	**1,085**	**549**	**448**

Borrowings from parent bank and other banks in 2022 also contain repurchase agreements (Note 47).

Other borrowings relate on long term loans from development and other banks with original maturity between 1 and 5 years and average interest rate of 0.53% in 2022 and 0.79% in 2021.

25. Issued debt securities

	Group 2022	Group 2021	Bank 2022	Bank 2021
Issued debt instrument	1,970	978	1,970	978
	1,970	**978**	**1,970**	**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, which was repaid on November 2022. In September 2022 Bank issued new MREL bond in the amount of EUR 200 million with the maturity in September 2026 (coupon 5.597%) and in November additional EUR 63 million with the maturity November 2024 (coupon 4.4%).

(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	Provisions for pension insurance	Provisions for unused holiday	Provisions for court cases	Provisions for jubilee awards	Total
At 1 January 2022	**18**	**25**	**39**	**5**	**9**	**465**	**5**	**566**
			-					
Provision released during the year	-	(12)	-	-	-	-	(1)	(13)
Provision created during the year	25	-	-	1	4	44	-	74
(Credit)/charge recognised in profit or loss	*25*	*(12)*	*-*	*1*	*4*	*44*	*(1)*	*61*
Other changes	*-*	*-*	*-*	*(2)*	*-*	*-*	*-*	*(2)*
At 31 December 2022	**43**	**13**	**39**	**4**	**13**	**509**	**4**	**625**

Group	Off balance sheet exposure Stage 1	Off balance sheet exposure Stage 2	Off balance sheet exposure Stage 3	Provisions for pension insurance	Provisions for unused holiday	Provisions for court cases	Provisions for jubilee 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**

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	Provisions for pension insurance	Provisions for unused holiday	Provisions for court cases	Provisions for jubilee awards	Total
At 1 January 2022	**18**	**25**	**39**	**3**	**8**	**449**	**5**	**547**
Provision released during the year	-	(12)	-	-	-	-	(1)	(13)
Provision created during the year	25	-	-	1	4	45	-	75
(Credit)/charge recognised in profit or loss	25	(12)	-	1	4	45	(1)	62
At 31 December 2022	**43**	**13**	**39**	**4**	**12**	**494**	**4**	**609**

Bank	Off balance sheet exposure Stage 1	Off balance sheet exposure Stage 2	Off balance sheet exposure Stage 3	Provisions for pension insurance	Provisions for unused holiday	Provisions for court cases	Provisions 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**

26. Provisions for liabilities and charges (continued)

At 31 December 2022 the Bank formed HRK 494 million of provisions for all court cases (2021: HRK 449 million). The Group formed provisions for litigations in the amount of HRK 509 million (2021: HRK 465 million). The Management Board considers the mentioned provisions to be sufficient. The stated amounts represent the Group's best estimate of litigation losses, although the actual losses arising from litigations against the Group may be significantly different. It is not practical for the Management Board to assess the financial impact of changes in the assumptions on the basis of which the need for provisions is estimated. 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 initiate individual litigations against the bank, requesting compensation for damages based on exchange rate differences until June 2023, and for damages based on changes in interest rates, the statute of limitations for initiating litigations began in June 2019. In the case of individual litigations for compensation due to a unilateral change in the interest rate and contracting a currency clause in CHF, according to the decision of the Supreme Court, the statute of limitations begins on the date of the final decision in the collective litigation, but the final decision on the statute of limitations for claims from these litigations will be made by the Constitutional Court.

For loans in CHF converted to EUR based on the prescribed conversion procedure in chapter IV.a. of the Consumer Lending Act dated September 2015, in February 2019 the Supreme Court ruled that consumers have a legal interest in establishing the invalidity of individual contractual provisions. Further, in March 2020, the Supreme Court announced a decision in a trial procedure that conversion agreements are legally valid. Finally, in December 2022, the Supreme Court announced the legal understanding that a consumer with a converted loan has the right to payment of the respective default interests on overpaid amounts that the bank charged to the consumer when calculating the loan conversion. Courts will be obliged to apply this legal understanding in individual proceedings of consumers with converted loans against the Bank after it has passed the control of the Supreme Court's judicial records, and the competent courts have issued a corresponding verdict that must pass all instances of judicial decision-making until finality, as well as a verification of constitutional correctness (in the case that any of the interested parties initiates the mentioned procedure as well).

Provisions for actions against the Bank were formed individually for all litigations except for consumer litigations related to loans pegged to CHF with a claim of less than HRK 70 thousand, for which lump sum provisions were formed. The total amount of the lump sum provisions is increased by the portfolio of consumer loans pegged to CHF, with respect to which loans the bank has learned that court cases have been initiated, but the courts have not yet served the application to the Bank for a response by the end of 2022.

In the case of litigations initiated with a claim based on one of the two types of invalidity (for a currency clause in CHF or for a unilateral change in the interest rate), lump sum provisions are also formed for a claim for invalidity that has not yet been initiated but is likely to be initiated in the future.

The basis for the calculation of flat-rate provisions for consumer litigation for CHF-related loans consists of the claim, default interest and costs of the procedure. The claim is included in the base in the amount of the difference in the loan repayment on the grounds of invalidity of the articles of the loan agreement, for which articles nullity was ruled in the collective procedure (currency clause in CHF and unilateral change in the interest rate). Default interest is included in the basis for differences in claims until the estimated end date of a litigation, and the costs of the proceedings of the applicants are included until the estimated date of the final judgment.

(all amounts are shown in HRK millions)

26. Provisions for liabilities and charges (continued)

For contested CHF loans that were repaid or converted before 30 September 2015, based on publicly available data and internal assessments, the Bank reassessed the amount of the claim, default interests and litigation costs and, in accordance with the estimated risk of losing the dispute, updated the provisions amount.

27. a). Other liabilities

	Group 2022	Group 2021	Bank 2022	Bank 2021
Liabilities in respect of credit and debit card business	119	120	119	120
Liabilities in respect of advances received for insurance premium	59	69	-	-
Liabilities to employees	58	57	52	50
Liabilities to suppliers	67	46	62	37
Liabilities for loan prepayments	30	24	30	20
Management fee liabilities	21	20	-	-
Liabilities for inactive clients funds	40	16	40	16
Deferred fee and commission income prepayments	62	13	57	8
Liabilities for VAT, tax and surtax on interest	12	8	12	7
Liabilities related to purchase securities	16	-	16	-
Repurchase of domestic currency cash	-	3	-	3
Other liabilities	24	29	16	17
	508	**405**	**404**	**278**

Amounts reported under *Other liabilities* mainly refer to clearing and transition accounts.

27. b). Technical reserves for pension insurance

	Group 2022	Group 2021
Technical reserves for pension insurance	1,579	1,495

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 2022.

(all amounts are shown in HRK millions)

28. Subordinated liabilities

The Bank used the subordinated loan to increase its regulatory capital.
At 31 December 2022 the Bank had subordinated loans: in the amount of 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 2022	Group 2021	Bank 2022	Bank 2021
Subordinated loan	152	529	152	529
	152	**529**	**152**	**529**

29. Interest income

a) Analysis by product

	Group 2022	Group 2021	Bank 2022	Bank 2021
Interest income calculated using the effective interest method				
Placements with banks	17	2	17	2
Loans and advances to customers and similar entities	217	188	192	164
Loans and advances to individuals	626	644	622	611
Financial instruments at fair value through other comprehensive income	21	24	21	21
Financial instruments at amortised cost	57	21	37	11
	938	**879**	**889**	**809**
Other interest income				
Derivative financial instruments	7	4	7	6
Other financial assets at fair value through profit or loss	20	33	6	16
Derivative financial instruments – hedge accounting	18	2	18	2
Financial assets measured mandatorily at fair value through profit or loss	-	-	1	2
	45	**39**	**32**	**26**
	983	**918**	**921**	**835**

(all amounts are shown in HRK millions)

29. Interest income (continued)

b) Analysis by source

	Group 2022	Group 2021	Bank 2022	Bank 2021
Interest income calculated using the effective interest rate method				
Companies	214	188	185	158
Individuals	626	644	622	611
State and the public sector	81	44	66	38
Banks and other financial institutions	17	3	16	2
	938	**879**	**889**	**809**
Other interest income				
Companies	7	7	7	7
State and the public sector	13	28	-	12
Banks and other financial institutions	25	4	25	7
	45	**39**	**32**	**26**
	983	**918**	**921**	**835**

(all amounts are shown in HRK millions)

30. Interest expense

a) Analysis by product

	Group 2022	Group 2021	Bank 2022	Bank 2021
Derivative financial instruments	9	7	9	7
Derivative financial instruments in fair value hedges	22	6	22	6
Deposits from banks	6	11	6	11
Debt securities issued	26	1	26	1
Deposits from companies and other similar entities	5	1	5	1
Deposits from individuals	9	16	9	4
Borrowings	12	11	6	6
Lease liabilities	1	-	3	3
Subordinated liabilities	19	35	19	35
	109	**88**	**105**	**74**

b) Analysis by recipient

	Group 2022	Group 2021	Bank 2022	Bank 2021
Companies	31	2	34	4
Individuals	9	16	9	6
State and public sector	6	5	6	5
Banks and other financial institutions	63	65	56	59
	109	**88**	**105**	**74**

(all amounts are shown in HRK millions)

31. Fee and commission income

a) Analysis by product

	Group 2022	Group 2021	Bank 2022	Bank 2021
Domestic payment transactions	153	135	153	136
Investment management, custody and consultancy fees	176	170	18	15
Credit cards	444	342	444	342
Foreign payment transactions	57	47	57	47
Partial recharge of credit insurance costs	28	24	28	24
Guarantees and letter of credits	31	28	31	28
Loans and accounts administration fee	69	67	69	64
Other fees and commission income	68	57	62	56
	1,026	**870**	**862**	**712**

b) Analysis by source

	Group 2022	Group 2021	Bank 2022	Bank 2021
Companies	461	414	297	259
Individuals	181	164	181	160
State and public sector	7	5	7	5
Banks and other financial institutions	377	287	377	288
	1,026	**870**	**862**	**712**

(all amounts are shown in HRK millions)

32. Fee and commission expense

a) Analysis by product

	Group 2022	Group 2021	Bank 2022	Bank 2021
Credit card related charges	390	298	390	297
Domestic payment transactions	24	25	24	25
Partially rechargeable credit insurance costs	44	39	44	39
Other fees and commission expense	51	48	20	19
	509	**410**	**478**	**380**

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 2022	Group 2021	Bank 2022	Bank 2021
Companies	468	373	437	343
Banks and other financial institutions	41	37	41	37
	509	**410**	**478**	**380**

(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 2022	Group 2021	Bank 2022	Bank 2021
Gains less losses from trading financial instruments				
- Debt securities	-	(10)	-	(10)
- Equity securities (investment in investing funds)	-	-	-	-
- Derivative financial instruments	139	82	110	73
	139	*72*	*110*	*63*
Gains less losses from financial assets mandatorily at fair value through profit or loss				
Unrealized gain/(loss) from sale : - equity securities	(12)	-	(12)	1
- share in investment funds	3	(1)	-	-
	(9)	*(1)*	*(12)*	*1*
Gains less losses from financial assets designated at fair value through profit or loss				
Realised gain/(loss) on disposal of: - debt securities	(70)	(2)	(2)	-
- share in investment funds	-	1	-	-
Unrealised gain/(loss) on: - debt securities	(89)	(18)	(18)	(4)
	(159)	*(19)*	*(20)*	*(4)*
Realised gains / (losses) on financial assets at fair value through other comprehensive income	13	1	13	1
Net (loss)/gain on financial instruments at fair value	**(16)**	**53**	**91**	**61**

(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 2022	Group 2021	Bank 2022	Bank 2021
Gains less losses arising from trading in foreign currencies	161	156	163	156
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	(29)	(25)	(30)	(24)
- net loss on foreign exchange translation of assets and liabilities with foreign currency clause	(21)	(22)	23	(19)
Total foreign exchange differences	*(8)*	*(47)*	*(7)*	*(43)*
Net gain on trading and foreign exchange differences from translation of monetary assets and liabilities	**153**	**109**	**156**	**113**
Net losses from hedge accounting	**-**	**-**	**-**	**-**
	137	**162**	**247**	**174**

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 2022	Group 2021	Bank 2022	Bank 2021
Rental income from operating leases	28	28	-	-
Premium on pension insurance contracts	236	496	-	-
Dividend from subsidiaries	6	-	61	51
Profit from assets sale in operating lease	3	1	-	-
Other income	252	107	31	31
	525	**632**	**92**	**82**

(all amounts are shown in HRK millions)

35. Operating expenses

	Group 2022	Group 2021	Bank 2022	Bank 2021
Personnel expenses	407	393	361	338
Increase in technical reserve for pension insurance	176	326	-	-
Repayment of pension contract	137	171	-	-
IT expenses	181	94	174	94
Legal, advisory and audit expenses	72	52	67	56
REGOS, HANFA expenses	39	37	-	-
Office space expenses	40	35	52	43
Advertising, PR and promotional expenses	32	26	28	26
Communication expenses	33	25	29	25
Resolution fund fee	7	22	7	22
Deposit insurance expense	24	1	24	1
Investment in subsidiaries - reconciliation	-	-	92	2
Other administrative expenses	233	151	119	73
	1,381	**1,333**	**953**	**680**

Personnel expenses of the Group include HRK 66 million (2021: 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 2022 the Group had 1,857 employees (2021: 1,869 employees).
Personnel expenses of the Bank include HRK 58 million (2021: 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 2022 the Bank had 1,689 employees (2020: 1,649 employees).
Legal, advisory and audit expenses include fee for the statutory audit of the annual financial statements in the amount of HRK 3.1 (2021: HRK 1.0 million) and other fees in the amount of HRK 0.9 million (2021: HRK 0.5 million).

Other administrative expenses refers to expenditure for pension payments, expenses for court disputes, expenses accordance to write-offs of tangible and intangible assets and other material expenses.

(all amounts are shown in HRK millions)

35 a) Depreciation

	Grupa 2022	Grupa 2021	Banka 2022	Banka 2021
Depreciation of property, plant, equipment and investment property (note 14a)	53	48	46	40
Depreciation of intangible assets (Note 16)	59	56	57	54
Depreciation of right of use assets (note 15)	9	7	22	23
Depreciation of property, plant and equipment under operating lease (Note 14c)	24	24	-	-
Depreciation of investment property (Note 14b)	3	1	-	-
	148	**136**	**125**	**117**

36. Impairment losses

	Group 2022	Group 2021	Bank 2022	Bank 2021
Cash and current accounts with banks (Note 7)	-	5	-	5
Obligatory reserve with the Croatian National Bank (Note 8)	-	7	-	7
Placements with and loans to other banks (Note 10)	-	-	-	-
Loans and advances to customers (Note 11)	(55)	75	(64)	74
Investment securities at amortised cost (Note 12a)	1	8	1	8
Investment securities at fair value through other comprehensive income (Note 12b)	(1)	15	(1)	14
Other assets (Note 18)	(3)	(2)	(3)	(2)
	(58)	**108**	**(67)**	**106**
Hereof:				
Stage 1	75	139	76	134
Stage 2	(145)	(5)	(145)	(7)
Stage 3	(17)	(42)	(27)	(37)
POCI	29	16	29	16
	(58)	**108**	**(67)**	**106**

(all amounts are shown in HRK millions)

37. Income tax expense

	Group 2022	Group 2021	Bank 2022	Bank 2021
Recognised in profit or loss				
- Current tax expense	(85)	(103)	(73)	(81)
- Deferred taxes	17	(12)	20	(12)
Income tax expense	**(68)**	**(115)**	**(53)**	**(93)**
Profit before tax	**405**	**608**	**332**	**542**
Income tax at 18% (2020: 18%)	(73)	(110)	(60)	(98)
Non-deductible expenses	(5)	(6)	(5)	(6)
Tax incentives and tax-exempt income	10	1	12	11
Income tax expense	**(68)**	**(115)**	**(53)**	**(93)**
Effective tax rate	**16,79%**	**18,91%**	**15,96%**	**17,16%**

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.

During 2022 one of the subsidiaries have gross tax losses in the amount of HRK 58 million (2021: HRK 0 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 2022	Tax benefit 2022	Gross tax losses 2021	Tax benefit 2021
31 December 2022	-	-	-	-
31 December 2023	-	-	-	-
31 December 2024	-	-	-	-
31 December 2025	-	-	-	-
31 December 2026	-	-	-	-
31 December 2027	58	-	-	-
	58	**-**	**-**	**-**

(all amounts are shown in HRK millions)

37. Income tax expense (continued)

Bank

	Gross tax losses 2022	**Tax benefit 2022**	**Gross tax losses 2021**	**Tax benefit 2021**
31 December 2021	-	-	-	-
31 December 2022	-	-	-	-
31 December 2023	-	-	-	-
31 December 2024	-	-	-	-
31 December 2025	-	-	-	-
	-	**-**	**-**	**-**

38. Share capital

Group and Bank	**2022 Total shares**	**2021 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.

	2022 Ordinary Shares %	**2021 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 (2021: 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 (2021: HRK 181 million), and for the Bank HRK 173 million (2021: 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 (105) million for the Group (2021: HRK 29 million), and for the Bank HRK (105) million (2021: HRK 27 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.

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.
Bank will propose to pay out dividend from profit for the year 2022 in the amount reduced by a distribution amount of EUR 3,9 million for the Additional Tier 1 Instrument (AT1).

During 2022 the subsidiaries proposed and paid HRK 55 million in dividends from retained earnings (2021: HRK 51 million).

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.

42. Assets and liabilities from discontinued operation (continued)

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 liabilities, 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	**-**

(all amounts are shown in HRK millions)

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 2022**	**Group 2021**
Net profit for the year attributable to owners of the parent (HRK)	336,821,080	503,376,765
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 (basic and diluted)	**93.01**	**139.00**

45. Cash and cash equivalents

	Notes	**Group 2022**	**Group 2021**	**Bank 2022**	**Bank 2021**
Cash in hand	7	1,336	1,514	1,336	1,514
Gyro account with the Croatian National Bank	7	12,002	8,573	12,002	8,573
Current accounts with other banks	7	261	87	233	76
Placements with and loans to other banks with original maturity up to three months	7	1,728	61	1,728	61
Impairment allowance		-	-	-	-
		15,327	**10,235**	**15,299**	**10,224**

(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 2022	Group 2021	Bank 2022	Bank 2021
Gyro account with the Croatian National Bank	7	12,002	8,573	12,002	8,573
Obligatory reserve with the Croatian National Bank	8	-	1,870	-	1,870
Deposits from the Croatian National Bank		1,348	-	1,348	-
Government bonds, direct exposure	9, 12a and 12b	4,745	5,481	3,865	4,068
Treasury bills issued by the Ministry of Finance	9, 12a and 12b	848	746	783	527
Loans and advances to customers	11	2,128	1,106	2,043	1,106
Provision for Stage 1 and 2/ unidentified impairment		(2)	(1)	(2)	(1)
Borrowings		(524)	(425)	(309)	(370)
Deposits from the Republic of Croatia		(62)	(37)	(62)	(37)
		20,483	**17,313**	**19,668**	**15,736**

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 2022	Group 2021	Bank 2022	Bank 2021
Loans and advances to customers guaranteed by the State	188	308	188	308
Guarantees, letters of credit and undrawn lending facilities	2	5	2	5
	190	**313**	**190**	**313**

The total net direct and indirect on and off-balance-sheet exposure to Republic of Croatia represents 34% of the total assets and off-balance-sheet exposure of the Group (2021: 33%) and 34% of the total assets and off-balance-sheet exposure of the Bank (2021: 32%).

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:

47. Repurchase and reverse repurchase agreements (continued)

Group/Bank	**Fair value of underlying assets**	**Carrying amount of corresponding liabilities**	**Repurchase date**	**Repurchase price**
2022				
Securities at fair value through profit or loss	211	208	January 2023	208
2021				
Securities at fair value through profit or loss	-	-	-	-

Borrowings from the European Investment Bank in the amount of HRK 32 million (2021: HRK 61 million) are secured by securities in the amount of HRK 68 million (2021: HRK 125 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				
2022	435	409	January till February 2023	409
2021	61	55	January till March 2022	55

48. Commitments and contingent liabilities

The aggregate amounts of outstanding guarantees, letters of credit and undrawn loan commitments at 31 December were:

	Group 2022	**Group 2021**	**Bank 2022**	**Bank 2021**
Guarantees	3,674	3,012	3,684	3,015
Letters of credit	123	65	123	65
Undrawn lending facilities	2,568	2,599	2,314	2,244
Other risk off-balance sheet items	4,058	3,864	4,058	3,867
	10,423	**9,540**	**10,179**	**9,191**

(all amounts are shown in HRK millions)

48. Commitments and contingent liabilities (continued)

At 31 December 2022 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 95 million (2021: HRK 82 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 2022			Bank 2022		
	Total exposure	Impairment allowance	Collateral	Total exposure	Impairment allowance	Collateral
Off balance exposure						
Stage 1	7,733	5	1,745	7,475	5	1,745
Stage 2	571	13	71	569	13	71
Stage 3	55	36	14	55	36	14
	8,359	**54**	**1,830**	**8,099**	**54**	**1,830**

	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**

48. 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 2022 the total assets under custody held by the Group on behalf of customers were HRK 7,753 million (2021: HRK 3,496 million). Further, at 31 December 2022, the total assets of investment and pension funds managed by the Group amounted to HRK 42,695 million (2021: HRK 43,879 million).

(all amounts are shown in HRK millions)

49. Assets and liabilities managed on behalf of third parties

In 2022 the Group made income in the amount of HRK 170 million (2021: HRK 182 million) of fees on custody activities provided to companies, banks and individuals, and management of investment and pension funds.

At 31 December 2022 the Group and the Bank managed loans on behalf of third parties as follows:

	2022	2021
Assets		
- Loans to companies	525	113
Total assets	**525**	**113**
Liabilities		
- Financial institutions	525	113
Total liabilities	**525**	**113**

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:

	Group 2022	Group 2021	Bank 2022	Bank 2021
Interest, fee and commission income				
(Notes 29, 31, 34)				
- Raiffeisen Leasing d.o.o.	-	-	3	3
- Raiffeisen stambena štedionica d.d.	-	-	1	3
- Raiffeisen consulting d.o.o.	-	-	4	4
- Raiffeisen mirovinsko društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	-	-	3	2
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	1	-
- Raiffeisen Invest d.o.o.	-	-	-	6
- Raiffeisen Centrobank AG	1	-	1	-
- Raiffeisenbank International (RBI)	34	13	34	13
	35	**13**	**47**	**31**

(all amounts are shown in HRK millions)

50. Related party transactions (continued)

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 2022	Group 2021	Bank 2022	Bank 2021
Interest, fee and commission expense (Notes 30 and 32)				
- Raiffeisen consulting d.o.o.	-	-	-	(2)
- Raiffeisenbank International (RBI)	(59)	(55)	(55)	(51)
- Ukrainian Processing Centre PJSC	(3)	(3)	(3)	(3)
- Regional Card Processing Center s.r.o.	(17)	(15)	(17)	(15)
- Centralised Raiffeisen International Services&Payment S.R.L.	(3)	(3)	(3)	(3)
	(82)	**(76)**	**(78)**	**(74)**

Interest expense relates to interest on operating lease and subordinated instrumentsg, and commission expenses relate to commission for card business payment services.

	Group 2022	Group 2021	Bank 2022	Bank 2021
Trading and other income (Note 33)				
- Raiffeisen Leasing d.o.o.	-	-	3	2
- Raiffeisen stambena štedionica d.d.	-	-	(10)	(4)
- Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	-	-	58	52
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	(1)	(2)
- Raiffeisen Invest d.o.o.	-	-	-	3
- Raiffeisen Consulting d.o.o.	-	-	1	-
- Raiffeisenbank International (RBI)	(83)	(54)	(83)	(54)
	(83)	**(54)**	**(32)**	**(3)**

The largest portion relates to the dividend from subsidiary, and trading income is related to derivative transactions.

	Group 2022	Group 2021	Bank 2022	Bank 2021
Operating expenses (Note 35)				
- Raiffeisen Leasing d.o.o.	-	-	(4)	(4)
- Raiffeisen Consulting d.o.o.	-	-	(25)	(29)
- Raiffeisenbank International (RBI)	(57)	(38)	(57)	(38)
- Regional Card Processing Center s.r.o.	(8)	(2)	(8)	(2)
	(65)	**(40)**	**(94)**	**(73)**

Operating expenses include costs for lease of business premises, group projects and consulting services.

(all amounts are shown in HRK millions)

50. Related party transactions (continued)

Assets	Group 2022	Group 2021	Bank 2022	Bank 2021
Current accounts and placements with banks (Notes 7 and 10)				
- Raiffeisen stambena štedionica d.d.	-	-	-	37
- Raiffeisenbank International (RBI)	157	64	157	64
- Raiffeisen Bank d.d. Bosna i Hercegovina	-	-	-	-
- Raiffeisenbank a.s.	1	1	1	1
-Raiffeisen Bank Zrt.	6	1	6	1
-Raiffeisen banka a.d.	6	6	6	6
	170	**72**	**170**	**109**
Loans and advances to customers (Note 11)				
- Raiffeisen Consulting d.o.o.	-	-	121	131
- Raiffeisen Leasing d.o.o.	-	-	330	234
	-	**-**	**451**	**365**
Derivative financial assets (Note 9)				
- Raiffeisen stambena štedionica d.d.	-	-	-	8
- Raiffeisenbank International (RBI)	-	29	325	29
	-	**29**	**325**	**37**
Accrued income and other assets (Note 18)				
- Raiffeisen Invest d.o.o.	-	-	-	1
- Raiffeisen Leasing d.o.o.	-	-	4	6
- Raiffeisen consulting d.o.o.	-	-	84	95
- Raiffeisenbank International (RBI)	6	3	6	3
	6	**3**	**94**	**105**

(all amounts are shown in HRK millions)

50. Related party transactions (continued)

	Group 2022	Group 2021	Bank 2022	Bank 2021
Liabilities				
Deposits (Notes 21 and 22)				
- Raiffeisen Leasing d.o.o.	-	-	87	62
- Raiffeisen stambena štedionica d.d.	-	-	-	254
- Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	-	-	107	117
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	150	62
- Raiffeisen Invest d.o.o.	-	-	-	9
- Raiffeisenbank International (RBI)	377	9	377	9
- Raiffeisen Bank d.d. Bosna i Hercegovina	-	5	-	5
-Raiffeisenbank a.s.	-	1	-	1
-Raiffeisen Bank Zrt.	-	2	-	2
-Raiffeisen banka a.d.	2	-	2	-
-Tatra banka, a.s.	-	1	-	1
Total	**379**	**18**	**723**	**522**
Borrowings and subordinated liabilities (Notes 24, 28)				
- Raiffeisenbank International (RBI)	515	856	264	535
Total	**515**	**856**	**264**	**535**
Derivative financial liabilities (Notes 20)				
- Raiffeisenbank International (RBI)	48	66	48	66
Total	**48**	**66**	**48**	**66**
Accrued and other liabilities (Note 27)				
- Raiffeisen Leasing d.o.o.	-	-	4	6
- Raiffeisen Consulting d.o.o.	-	-	88	99
- RBI	36	14	36	14
- Regional Card Processing Center s.r.o.	-	-	-	-
- Raiffeisen Centrobank AG	-	-	-	-
Total	**36**	**14**	**128**	**119**
Off-balance sheet exposure				
Derivative instruments				
- Raiffeisen Leasing d.o.o.	-	-	-	34
- Raiffeisen stambena štedionica d.d.	-	-	-	75
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	-	514
- Raiffeisenbank International (RBI)	8,401	8,100	8,401	8,100
Total	**8,401**	**8,100**	**8,401**	**8,723**
Contingent Liabilities (Note 48)				
- Raiffeisen consulting d.o.o.	-	-	6	3
- Raiffeisen Leasing d.o.o.	-	-	10	3
- Raiffeisenbank International (RBI)	50	30	50	30
-Raiffeisen Bank Zrt.	2	2	2	2
-Raiffeisen Bank Kosovo J.S.C.	5	4	5	4
Total	**57**	**36**	**73**	**42**

(all amounts are shown in HRK millions)

50. Related party transactions (continued)

2022	Exposure	Liabilities	Income	Expense
Group				
Key management personnel				
Short-term benefits (salaries and fees)	-	17	-	33
Long-term benefits	-	-	-	3
Loans and advances	14	-	-	-
Deposits	-	25	-	-
Total	**14**	**42**	-	**36**
Bank				
Key management personnel				
Short-term benefits (salaries and fees)	-	16	-	14
Long-term benefits	-	-	-	1
Loans and advances	-	-	-	-
Deposits	-	6	-	-
Total	**-**	**22**	**-**	**15**

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**

Long-term benefits include variable benefits for identified staff.

In 2022 the Bank paid out to RBI a coupon on AT1 instrument in the amount of HRK 28 million (2021: 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, analysing 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 analysing 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 for Non -Retail segment and HRK 750 for Retail segment and the relative component is set at 1%. In Retail segment default is determined on product level, and in Non-retail segment (including MICRO segment) on customer level.

(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 2022	Group 2021	Bank 2022	Bank 2021
Cash and accounts with banks (excluding cash in the cash register)	7	12,263	8,660	12,235	8,649
Obligatory reserve with the Croatian National Bank	8	-	1,870	-	1,870
Fair value hedge	9a	239	5	239	5
Financial assets at fair value through profit or loss	9	872	1,799	289	687
Placements with and loans to other banks	10	1,912	94	1,878	112
Loans and advances to	11	23,951	21,648	23,293	20,523
Debt securities					
at fair value through other comprehensive	12b	3,266	4,589	3,266	4,414
at amortized cost	12a	4,483	2,577	3,683	2,180
Other financial assets	18	95	77	69	40
		47,081	**41,319**	**44,952**	**38,480**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Credit risk (continued)

Quality analysis of credit portfolio

Group

2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Low risk	31,069	186	-	5	31,260
Medium risk	9,257	1,564	-	32	10,853
High risk	463	1,101	-	16	1,580
Default	-	-	607	196	803
Without rating	3,439	37	114	17	3,607
Balance sheet impairment allowance	(141)	(298)	(487)	(96)	(1,022)
Carrying amount	**44,087**	**2,590**	**234**	**170**	**47,081**

Bank

2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Low risk	30,529	184	-	5	30,718
Medium risk	7,931	1,547	-	32	9,510
High risk	431	1,067	-	16	1,514
Default	-	-	574	196	770
Without rating	3,289	32	110	17	3,448
Balance sheet impairment allowance	(139)	(297)	(476)	(96)	(1,008)
Carrying amount	**42,041**	**2,533**	**208**	**170**	**44,952**

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**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

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**

Group

2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Off - balance sheet exposure					
Low risk	5,180	100	-	-	5,280
Medium risk	2,456	389	-	-	2,845
High risk	62	82	-	-	144
Default	-	-	56	-	56
Without rating	2,090	2	5	1	2,098
Balance sheet impairment allowance	(42)	(13)	(40)	-	(95)
Carrying amount	**9,746**	**560**	**21**	**1**	**10,328**

Bank

2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Off - balance sheet exposure					
Low risk	5,081	100	-	-	5,181
Medium risk	2,336	387	-	-	2,723
High risk	41	82	-	-	123
Default	-	-	56	-	56
Without rating	2,088	2	5	1	2,096
Balance sheet impairment allowance	(42)	(13)	(40)	-	(95)
Carrying amount	**9,504**	**558**	**21**	**1**	**10,084**

(all amounts are shown in HRK millions)

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**	**Stage 2**	**Stage 3**	**POCI**	**Total**
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**

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 undergo 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

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Credit risk (continued)

Collateral valuation (continued)

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.

The table below show the market value of collateral at 31 December 2022 and 31 December 2021 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 2022	Group 2021	Bank 2022	Bank 2021
Commercial property	6,647	5,891	6,592	5,832
Cash deposits	280	239	280	237
Securities	2	7	2	7
Guarantees and similar instruments	2,392	2,416	2,392	2,412
Funds	-	12	-	12
Movable property	1,346	1,214	411	454
Residential property	13,076	11,503	13,074	10,613
Total	**23,743**	**21,282**	**22,751**	**19,567**

The table shows the exposure of the Bank and the Group at 31 December 2022 and 31 December 2021 that were rated by external rating agencies

External rating – balance and off-balance sheet exposure	Group 2022	Group 2021	Bank 2022	Bank 2021
A	137	9	27	9
A-	625	403	625	403
A+	224	254	224	254
AA	119	76	76	76
AA-	232	411	232	411
AA+	470	68	470	68
AAA	527	520	527	508
B	70	-	70	-
B-	-	75	-	74
BB+	31	-	31	-
BBB	53	-	53	-
BBB-	99	7,461	99	5,916
BBB+	7,545	141	6,563	112
Unrated	47,277	41,359	46,039	39,758
	57,409	**50,777**	**55,036**	**47,589**

Source: Standard&Poor's

(all amounts are shown in HRK millions)

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

2022

	Group	Bank
<40%	553	553
40%-60%	808	808
60%-80%	1,396	1,396
80%-90%	983	983
>90%	910	910
n/a	121	121
	4,771	**4,771**

2021

	Group	Bank
<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**

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 **2022**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Without delay	43,743	2,044	121	150	46,058
Delay <30 days	343	509	45	16	913
Delay >30 days	1	37	68	4	110
	44,087	**2,590**	**234**	**170**	**47,081**

Bank **2022**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Without delay	41,268	1,989	98	151	43,506
Delay <30 days	771	508	44	16	1,339
Delay >30 days	-	37	66	4	107
	42,039	**2,534**	**208**	**171**	**44,952**

Group **2021**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Without delay	36,277	3,201	132	101	39,711
Delay <30 days	779	579	44	15	1,417
Delay >30 days	1	44	94	52	191
	37,057	**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**

(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 2022 and 31 December 2021 is presented below:

Group 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
On balance exposure					
Gross book value at 01 January	**37,131**	**4,063**	**860**	**299**	**42,353**
New Approvals	22,409	690	57	40	23,196
Derecognition (does not include write-off)	(7,631)	(511)	(82)	(9)	(8,233)
Transfer to Stage 1	1,983	(1,914)	(63)	(6)	-
Transfer to Stage 2	(1,193)	1,245	(52)	-	-
Transfer to Stage 3	(117)	(147)	264	-	-
POCI	-	-	(5)	5	-
Amounts recovered during the year	(8,360)	(535)	(165)	(58)	(9,118)
Write-off	(4)	(5)	(93)	(5)	(107)
Effects of exchange differences	10	2	-	-	12
At 31 December	**44,228**	**2,888**	**721**	**266**	**48,103**

Bank 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
On balance exposure					
Gross book value at 01 January	**34,566**	**3,828**	**786**	**297**	**39,477**
New Approvals	21,870	684	57	40	22,651
Derecognition (does not include write-off)	(6,806)	(428)	(60)	(7)	(7,301)
Transfer to Stage 1	1,933	(1,864)	(63)	(6)	-
Transfer to Stage 2	(1,174)	1,226	(52)	-	-
Transfer to Stage 3	(116)	(145)	261	-	-
POCI	-	-	(5)	5	-
Amounts recovered during the year	(8,099)	(468)	(147)	(58)	(8,772)
Write-off	(4)	(5)	(93)	(5)	(107)
Effects of exchange differences	10	2	-	-	12
At 31 December	**42,180**	**2,830**	**684**	**266**	**45,960**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Credit risk (continued)

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 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Expected credit losses at 01 January	**74**	**239**	**590**	**131**	**1,034**
Derecognition (does not include write-off)	(10)	(21)	(42)	(2)	(75)
Transfer to Stage 1	152	(101)	(48)	(3)	-
Transfer to Stage 2	(7)	41	(34)	-	-
Transfer to Stage 3	(2)	(23)	25	-	-
POCI	-	-	(3)	3	-
Increase/(decrease) of impairment allowance	(66)	164	96	(28)	166
Write-off	-	(1)	(97)	(5)	(103)
Effects of exchange differences	-	-	-	-	-
At 31 December	**141**	**298**	**487**	**96**	**1,022**

Bank 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Expected credit losses at 01 January	**72**	**235**	**560**	**130**	**997**
Derecognition (does not include write-off)	(8)	(20)	(31)	(1)	(60)
Transfer to Stage 1	152	(101)	(48)	(3)	-
Transfer to Stage 2	(7)	41	(34)	-	-
Transfer to Stage 3	(2)	(22)	24	-	-
POCI	-	-	(3)	3	-
Increase/(decrease) of impairment allowance	(68)	165	104	(28)	173
Write-off	-	(1)	(96)	(5)	(102)
Effects of exchange differences	-	-	-	-	-
At 31 December	**139**	**297**	**476**	**96**	**1,008**

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**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Credit risk (continued)

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**

The above table is in connection to Note 36 Impairment losses, as follows: in the table, total impairment loss of the Group of HRK 58 million (Bank: HRK 67 million) (Note 36) is the sum of rows charge (release) of provisions of HRK 166 million (Bank: HRK 173 million) and derecognition – not including write-offs (Group: HRK 75 million and Bank: HRK 60 million). Additionally, also the amount of HRK 33 million for the Group (Bank: HRK 33 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 2021 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.

The tables present gross exposures and allowance for expected loan losses at 31 December 2022 and 31 December 2021 by stages of financial assets, 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. Regarding the exposures that were migrated to Stage 2 in 2020 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.

51. Risk Management (continued)

Credit risk (continued)

An overview of restructured balance sheet exposures by portfolio segment and by restructuring at 31 December 2022 and 31 December 2021 is given below:

Group

Amount of balance sheet exposures with forbearance measures

		31 December 2022			**31 December 2021**	
HRK Million	performing exposures with forbearance measures	non-performing exposures with forbearance measures	Total	preforming exposures with forbearance measures	non-performing exposures with forbearance measures	Total
Individuals	253	34	287	263	51	314
Companies and similar entities	162	143	305	180	173	353
	415	**177**	**592**	**443**	**224**	**667**

Bank

Amount of balance sheet exposures with forbearance measures

		31 December 2022			**31 December 2022**	
HRK Million	performing exposures with forbearance measures	non-performing exposures with forbearance measures	Total	performing exposures with forbearance measures	non-performing exposures with forbearance measures	Total
Individuals	253	34	287	241	50	291
Companies and similar entities	156	114	270	157	147	304
	409	**148**	**557**	**398**	**197**	**595**

At 31 December 2022, the Bank's total non-performing loans amounted to HRK 1,012 million (2021: HRK 1,158 million) out of a total exposure of HRK 56,139 million (2021: HRK 48,668 million). Loan loss provisions were formed in the amount of HRK 612 million (2021: HRK 703 million) covering 60 percent (2021: 61 percent) of non-performing loans. At the Group level, non-performing loans totalled HRK 1,049 million (2021: HRK 1,223 million) out of a total exposure of HRK 58,526 million (2021: 51,893 million) of total placements. Loan loss provisions were formed in the amount of HRK 623 million (2021: HRK 734 million), covering 59 percent (2021: 60 percent) of non-performing loans.

(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:

	2022 Group Balance sheet exposure	**Off-balance sheet exposure**	**2021 Group Balance sheet exposure**	**Off-balance sheet exposure**	**2022 Bank Balance sheet exposure**	**Off-balance sheet exposure**	**2021 Bank Balance sheet exposure**	**Off-balance sheet exposure**
Geographic region:								
Croatia	44,711	10,144	39,855	9,244	42,888	9,900	36,979	8,895
Other EU	2,725	177	2,205	268	2,405	177	2,205	268
Non EU	667	102	293	28	667	102	293	28
Total	**48,103**	**10,423**	**42,353**	**9,540**	**45,960**	**10,179**	**39,477**	**9,191**
Impairment allowance	(1,022)	(95)	(1,034)	(82)	(1,008)	(95)	(997)	(82)
	47,081	**10,328**	**41,319**	**9,458**	**44,952**	**10,084**	**38,480**	**9,109**

Concentration of credit risk by industry:

	Group 2022 %	**Group 2021 %**	**Bank 2022 %**	**Bank 2021 %**
Individuals	27	30	28	29
Financial services	28	23	28	25
Trade	10	9	8	9
Central and local government	12	14	12	12
Construction	4	4	5	4
Food and drink industry	2	2	2	2
Non-metal industry	3	4	3	4
Electronics	2	2	2	2
Wood and paper industry	-	-	1	1
Craft and services	9	9	9	10
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

Stage	2022 Total exposure	Impairment allowances	Net exposure	2021 Total exposure	Impairment allowances	Net exposure
Stage 1	54,016	183	53,833	46,158	92	46,066
Stage 2	3,416	311	3,150	4,512	290	4,222
Stage 3	782	527	255	923	629	294
POCI	267	96	171	300	105	195
	58,526	**1,117**	**57,409**	**51,893**	**1,116**	**50,777**

Bank

Stage	2022 Total exposure	Impairment allowances	Net exposure	2021 Total exposure	Impairment allowances	Net exposure
Stage 1	51,726	181	51,545	43,231	89	43,142
Stage 2	3,401	310	3,091	4,279	287	3,992
Stage 3	782	527	255	859	599	260
POCI	267	96	171	299	104	195
	56,139	**1,103**	**55,036**	**48,668**	**1,079**	**47,589**

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.

51. Risk Management (continued)

Liquidity risk (continued)

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 on monthly basis and reported to the regulator quarterly

LCR and NSFR were maintained above regulatory and internal limits (defined internal limits are: LCR 110% ; NSFR 110%).

Million HRK	31 December 2022	31 December 2021
Liquidity coverage ratio (LCR)	**239%**	**200%**
Liquidity buffer	19,683	15,171
Net cash outflows	8,248	7,593

LCR on a consolidated basis at 31 December 2022 was 241%.

HRK millions	31.12.2022	31.12.2021
Net stable funding ratio (NSFR)	**185%**	**169%**
Requested funding sources	20,320	18,726
Available funding sources	37,676	31,664

NSFR on consolidated level amounts 178% as of 31 December 2022.

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 extremely high level of liquidity during the whole 2022 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 1,200 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.

	2022			2021		
EUR million	**7 days**	**30 days**	**1 year**	**7 days**	**30 days**	**1 year**
Liquidity gap (GC)	2,270	2,166	1,825	1,694	1,711	1,637

51. Risk Management (continued)

Liquidity risk (continued)

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 September 2022 Bank issued MREL eligible bond with total notional amount of EUR 200 mn and maturity 2026 and again in November 2022 issued additional EUR 63 mn with maturity 2024, 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 3.43% at 31 December 2021. 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.

Maturity analysis

The residual maturity of the Group's assets and liabilities and equity as at 31 December 2022 and 31 December 2021 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.

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Liquidity risk (continued)

Maturity analysis (continued)

Group 2022	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets						
Cash and current accounts with banks	13,599	-	-	-	-	13,599
Obligatory reserve with the Croatian National Bank	-	-	-	-	-	-
Financial assets at fair value through profit or loss	241	149	605	-	-	995
Derivative financial instruments	239	-	-	-	-	239
Placements with and loans to other banks	1,762	-	-	150	-	1,912
Loans and advances to customers	867	1,168	3,918	11,334	6,664	23,951
Investment securities at amortized cost	976	875	1,736	224	672	4,483
Investment securities through other comprehensive income	251	1,061	1,954	-	18	3,284
Property, plant and equipment	-	-	-	-	717	717
Investment property	-	-	-	-	136	136
Property, plant and equipment under operating lease	-	-	-	-	137	137
Right of use assets	-	3	8	29	14	54
Intangible assets	-	-	-	-	413	413
Deferred tax assets	-	-	-	98	6	104
Other assets	212	3	34	5	28	282
Total assets	**18,147**	**3,259**	**8,255**	**11,840**	**8,805**	**50,306**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Liquidity risk (continued)

Maturity analysis (continued)

Group 2022	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	71	-	-	-	-	71
Deposits from banks	812	-	-	-	-	812
Deposits from companies and other similar entities	17,655	1	24	38	16	17,734
Deposits from individuals	19,780	4	15	60	24	19,883
Borrowings	225	67	323	711	62	1,388
Debt securities issued	-	-	2	1,968	-	1,970
Provisions for liabilities and charges	-	-	53	572	-	625
Tax liabilities	-	-	10	-	-	10
Lease liabilities	-	2	8	30	14	54
Other liabilities	457	-	31	20	-	508
Technical reserves for pension insurance	22	41	151	393	972	1,579
Subordinated liabilities	-	1	-	-	151	152
Equity attributable to the equity holders of the parent	-	-	-	-	5,520	5,520
Total liabilities and equity	**39,022**	**116**	**617**	**3,792**	**6,759**	**50,306**
Maturity gap	**(20,875)**	**3,143**	**7,638**	**8,048**	**2,046**	**-**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Maturity analysis (continued)

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**

	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
Tax liabilities	-	-	82	-	-	82
Lease liabilities	-	5	14	9	3	31
Other liabilities	353	1	34	17	-	405
Technical reserves for pension insurance	20	39	100	415	921	1,495
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)

Bank 2022	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets						
Cash and current accounts with banks	13,571	-	-	-	-	13,571
Obligatory reserve with the Croatian National Bank	-	-	-	-	-	-
Financial assets at fair value through profit or loss	128	119	55	-	-	302
Derivatives	239	-	-	-	-	239
Placements with and loans to other banks	1,728	-	-	150	-	1,878
Loans and advances to customers	874	1,091	3,737	10,945	6,646	23,293
Investment securities at amortized cost	974	872	1,731	106	-	3,683
Investment securities through other comprehensive income	251	1,061	1,954	-	18	3,284
Investments in subsidiaries	-	-	-	-	301	301
Property, plant, equipment and investment property	-	-	-	-	496	496
Right of use assets	-	6	16	72	42	136
Intangible assets	-	-	-	-	380	380
Deferred tax assets	-	-	-	98	-	98
Other assets	185	-	-	-	29	214
Total assets	**17,950**	**3,149**	**7,493**	**11,371**	**7,912**	**47,875**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	71	-	-	-	-	71
Deposits from banks	812	-	-	-	-	812
Deposits from companies and other similar entities	18,000	-	14	34	16	18,064
Deposits from individuals	19,780	4	15	60	24	19,883
Borrowings	223	13	76	175	62	549
Debt securities issued	-	-	2	1,968	-	1,970
Provisions for liabilities and charges	-	-	52	557	-	609
Tax liabilities	-	-	14	-	-	14
Lease liabilities	-	5	16	74	45	140
Other liabilities	381	-	7	16	-	404
Subordinated liabilities	-	1	-	-	151	152
Equity	-	-	-	-	5,207	5,207
Total liabilities and equity	**39,267**	**23**	**196**	**2,884**	**5,505**	**47,875**
Maturity gap	**(21,317)**	**3,126**	**7,297**	**8,487**	**2,407**	**-**

(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
Derivatives	5	-	-	-	-	5
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**	**-**

51.Risk Management (continued)

Contractual maturity analysis

The table below provides an analysis of the expected outflows of financial liabilities at 31 December 2022 and 31 December 2021.

Group	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total	Carrying amount
Liabilities							
Derivative financial liabilities	78	12	55	129	63	337	71
Deposits from banks	812	-	-	-	-	812	812
Deposits from companies and other similar entities	17,655	2	27	40	17	17,741	17,734
Deposits from individuals	19,786	5	19	73	24	19,907	19,883
Borrowings	225	67	327	722	80	1,421	1,388
Debt securities issued	-	26	81	2,205	-	2,312	1,970
Lease liabilities	-	2	8	30	14	54	54
Other financial liabilities	224	-	-	-	-	224	224
Subordinated liabilities	-	3	9	49	169	230	152
Total liabilities	**38,780**	**117**	**526**	**3,248**	**367**	**43,038**	**42,288**

Group 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
Liabilities							
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**

51.Risk Management (continued)

Contractual maturity analysis (continued)

Bank **2022**	**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**
Liabilities							
Derivative financial liabilities	78	12	55	129	63	337	71
Deposits from banks	812	-	-	-	-	812	812
Deposits from companies and other similar entities	18,000	1	17	36	17	18,071	18,064
Deposits from individuals	19,786	5	19	73	24	19,907	19,883
Borrowings	222	13	77	175	63	550	549
Debt securities issued	-	26	81	2,205	-	2,312	1,970
Lease liabilities	-	5	19	82	55	161	140
Other financial liabilities	211	-	-	-	-	211	211
Subordinated liabilities	-	3	9	49	169	230	152
Total liabilities	**39,109**	**65**	**277**	**2,749**	**391**	**42,591**	**41,852**

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**
Liabilities							
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**

(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 2022 and 31 December 2021 are presented in the following table.

Group

2022	**Carrying amount of encumbered asset**	**Carrying amount of non-encumbered asset**	**Total**
Asset			
Cash and current accounts with banks	-	13,571	13,571
Obligatory reserve with the Croatian National Bank	-	-	0
Placements with and loans to other banks	1,353	525	1,878
Investment securities	297	6,670	6,967
Loans and advances to customers	3	23,290	23,293
Other assets	11	2,155	2,166
	1,664	**46,211**	**47,875**

Bank

2022

	Carrying amount of encumbered asset	**Carrying amount of non-encumbered asset**	**Total**
Asset			
Cash and current accounts with banks	-	13,599	13,599
Obligatory reserve with the Croatian National Bank	-	-	-
Placements with and loans to other banks	1,353	559	1,912
Investment securities	297	7,470	7,767
Loans and advances to customers	3	23,948	23,951
Other assets	11	3,066	3,077
	1,664	**48,642**	**50,306**

(all amounts are shown in HRK millions)

51.Risk Management (continued)

Financial assets available for future financing (continued)

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**

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 Financial assets measured at fair value through other comprehensive income (FVTOCI) and Financial assets measured at fair value though profit and loss (FVTPL).

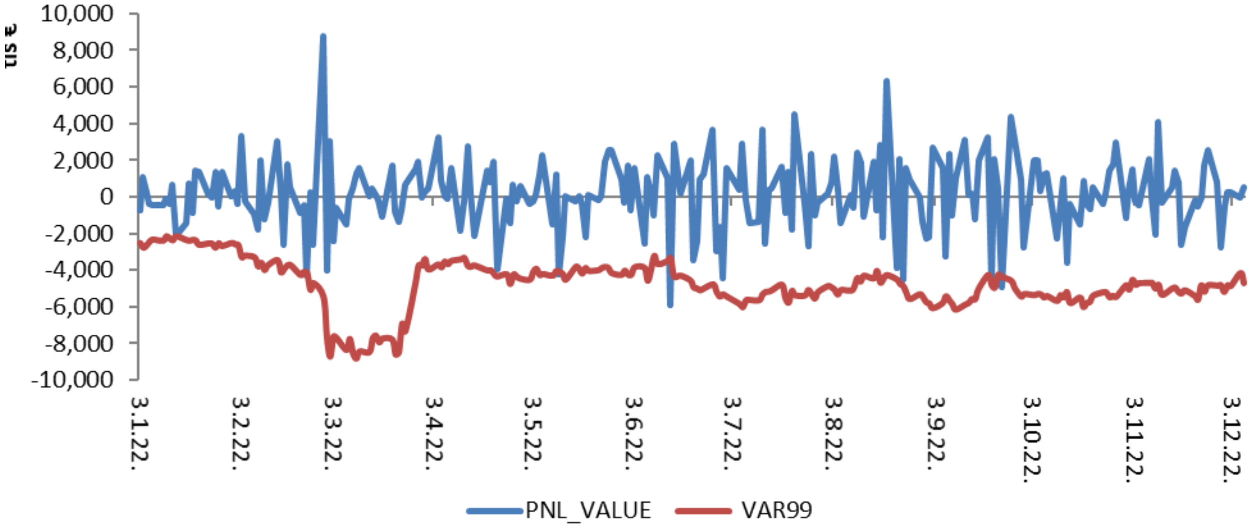
The limit resets to zero at the beginning of each calendar year, as the loss has to be calculated versus the maximum profit in the year-to-date period.

The following table presents the Value-at-Risk for 2022 and 2021:

HRK millions	December 2022	December 2021	Average	min	max
Interest rate risk					
- trading book	0,95	0,74	1,21	0,10	3,19
- banking book	10,98	5,45	8,91	4,22	19,29
Currency risk	0,09	0,51	0,08	0,02	0,88
Credit Spread Risk	30,28	18,33	33,82	13,23	65,26
Price risk	0,04	0,05	0,04	0,03	0,05
Total VaR	28,88	18,61	35,16	15,93	66,61

51. Risk Management (continued)

Market risk (continued)



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 2022 four backtesting violations which compared with the previous year (3 backtesting breaches) show, despite the strong shocks in the markets in the first quarter, the stability of the model and a good response of the model to market movements.
The Bank took positions in equity securities already in 2021, keeping also during the year 2022 the positions in smaller non material volumes.

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.

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Interest rate risk (continued)

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 2022 and 2021:

BPV / Currency in HRK	EUR	USD	HRK
31 December 2022	4,757	(5,773)	(315)
Average	96,867	(5,493)	(98,860)
Minimum	4,757	(13,674)	(144,592)
Maximum	138,673	(4,750)	(288)

BPV / Currency in HRK	EUR	USD	HRK
31 December 2021	(14,222)	(15,245)	(153,075)
Average	(94,389)	(13,249)	(146,398)
Minimum	(179,534)	(23,072)	(233,466)
Maximum	41,360	(5,646)	(38,463)

Total BPV for trading book at 31 December 2022 was HRK 10.93 thousand as compared to 31 December 2021 when it was HRK 183.62 thousand. Compared to the previous year, significant decrease in trading book figures happened due to the implementation of the CMA and the reduced volume of FX derivatives due to the introduction of the euro.

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 2022, and for natural persons the fallback is referenced in general terms and conditions). The LIBOR related portfolio maturing after 2022 is not material (<EUR 1mn) 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. Floating rate USD denominated loans are, according to the Consumer Credit Act , fixed during 2023. Since USD ibor will cease to exist from mid of 2023, new reference rate for related loans will be TERM SOFR.

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.

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.

51.Risk Management (continued)

Interest rate risk (continued)

Interest rate risk in non-trading book (continued)

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 2022 and 2021:

BPV / Currency in HRK	HRK	EUR	USD
31 December 2022	622,969	(922,672)	(30,474)
Average	391,052	(420,499)	26,605
Minimum	174,463	(983,311)	(45,522)
Maximum	731,415	(139,153)	69,549

BPV / Currency in HRK	HRK	EUR	USD
31 December 2021	660,017	146,097	45,049
Average	522,685	238,507	(4,468)
Minimum	352,087	26,194	(51,034)
Maximum	689,475	538,651	45,049

Total BPV for non-trading book at 31 December 2022 was HRK 1.58 million as compared to 31 December 2021 when it was HRK 856.04 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 measurement of the effect of change of economic value compared to the Tier 1 capital applying six different scenarios of reference curve shifting and all in line with EBA Guidelines for management of interest rate risk for the non trading book position. Regulation is applied and reported to the regulator for the Bank and for the Group on consolidated level.

	31.12.2022.	31.12.2021.
ECONOMIC VALUE CHANGE – regulatory shock / REGULATORY CAPITAL	7.44%	4.36%
ECONOMIC VALUE CHANGE – 6 additional shocks / TIER 1 CAPITAL	7.60%	5.24%

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 HRK million	31 December 2022	31 December 2021
Net interest income	267	94

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 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 2022 and 31 December 2021 is presented in the following table.

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Interest rate risk (continued)

ISI result as at 31 December 2022

	+200 bp		-200 bp	
	HRK	FCY	HRK	FCY
Effect on NII	83.84	(70.74)	(206.25)	(65.97)
Effect on financial assets value	17.58	(19.94)	74.11	20.91
Effect on result	11		(177)	

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)	

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 2022 amounted HRK 38,3 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 2022	EUR	EUR linked	CHF	CHF linked	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets								
Cash and current accounts with banks	547	-	16	-	100	663	12,936	13,599
Obligatory reserve with the Croatian National Bank	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	398	310	1	-	29	738	257	995
Derivative financial instruments	239	-	-	-	-	239	-	239
Placements with and loans to other banks	530	-	-	-	-	530	1,382	1,912
Loans and advances to customers	2,574	13,608	-	4	4	16,190	7,761	23,951
Investment securities measured at amortized cost	1,508	1,218	-	-	970	3,696	787	4,483
Investment securities through other comprehensive income	1,420	360	-	-	305	2,085	1,199	3,284
Property, plant and equipment	-	-	-	-	-	-	717	717
Investment in property	-	-	-	-	-	-	136	136
Property, plant and equipment within operating lease	-	-	-	-	-	-	137	137
Right of use assets	-	1	-	-	-	1	53	54
Intangible assets	-	-	-	-	-	-	413	413
Deferred tax assets	-	-	-	-	-	-	104	104
Other assets	25	7	1	-	2	35	247	282
Total assets	**7,241**	**15,504**	**18**	**4**	**1,410**	**24,177**	**26,129**	**50,306**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	45	-	2	-	24	71	-	71
Deposits from banks	286	-	49	-	96	431	381	812
Deposits from companies and other similar entities	5,486	14	30	-	992	6,522	11,212	17,734
Deposits from individuals	10,205	565	488	-	1,552	12,810	7,073	19,883
Borrowings	879	138	-	-	95	1,112	276	1,388
Debt securities issued	1,970	-	-	-	-	1,970	-	1,970
Provisions for liabilities and charges	16	1	-	-	-	17	608	625
Tax liabilities	-	-	-	-	-	-	10	10
Lease liabilities	-	42	-	-	-	42	12	54
Other liabilities	43	18	1	-	3	65	443	508
Technical reserves for pension insurance	-	210	-	-	-	210	1,369	1,579
Subordinated liabilities	152	-	-	-	-	152	-	152
Equity attributable to the equity holders of the parent	-	-	-	-	-	-	5,520	5,520
Total liabilities and equity	**19,082**	**988**	**570**	**-**	**2,762**	**23,402**	**26,904**	**50,306**
Currency gap	**(11,841)**	**14,516**	**(552)**	**4**	**(1,352)**	**775**	**(775)**	**-**

51. Risk Management (continued)

(all amounts are shown in HRK millions)

Exchange rate risk (continued)

Currency analysis (continued)

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	-	159	1,120	767	1,887
Derivative financial instruments	5	-	-	-	-	5	-	5
Placements with and loans to other banks	73	-	-	-	2	75	19	94
Loans and advances to customers	2,575	9,503	-	6	72	12,156	9,492	21,648
Investment securities measured at amortized cost	1,097	221	-	-	568	1,886	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	-	-	-	-	-	-	59	59
Other assets	2	7	1	-	2	12	153	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**	**23,162**	**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	5,735	18,323
Borrowings	657	155	-	-	-	812	273	1,085
Debt securities issued	978	-	-	-	-	978	-	978
Provisions for liabilities and charges	12	-	-	-	-	12	554	566
Tax liabilities	-	-	-	-	-	-	82	82
Lease liabilities	-	1	-	-	-	1	30	31
Other liabilities	11	16	7	-	1	35	370	405
Reerves for pension insurance	-	248	-	-	-	248	1,247	1,495
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**	**-**	**2,265**	**20,209**	**24,323**	**44,532**
Currency gap	**(7,910)**	**10,409**	**(442)**	**6**	**(902)**	**1,161**	**(1,161)**	**-**

(all amounts are shown in HRK millions)

51. Risk Management (continued)

Exchange rate risk (continued)

Currency analysis (continued)

Bank

2022	EUR	EUR linked	CHF	CHF linked	Other foreign currencies	Total foreign currencies	Domestic currency	Total currencies
Assets								
Cash and current accounts with banks	520	-	16	-	100	636	12,935	13,571
Obligatory reserve with the Croatian National Bank	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	123	20	1	-	29	173	129	302
Derivative financial instruments	239	-	-	-	-	239	-	239
Placements with and loans to other banks	530	-	-	-	-	530	1,348	1,878
Loans and advances to customers	2,886	12,686	-	4	4	15,580	7,713	23,293
Investment securities measured at amortized cost	984	984	-	-	970	2,938	745	3,683
Investment securities through other comprehensive income	1,420	360	-	-	305	2,085	1,199	3,284
Investments in subsidiaries	-	-	-	-	-	-	301	301
Property, plant, and equipment	-	-	-	-	-	-	496	496
Right of use assets	-	-	-	-	-	-	136	136
Intangible assets	-	-	-	-	-	-	380	380
Deferred tax assets	-	-	-	-	-	-	98	98
Other assets	25	-	1	-	2	28	186	214
Total assets	**6,727**	**14,050**	**18**	**4**	**1,410**	**22,209**	**25,666**	**47,875**
Liabilities and equity								
Financial liabilities at fair value through profit or loss	45	-	2	-	24	71	-	71
Deposits from banks	286	-	49	-	96	431	381	812
Deposits from companies and other similar entities	5,547	-	30	-	992	6,569	11,495	18,064
Deposits from individuals	10,205	565	488	-	1,552	12,810	7,073	19,883
Borrowings	145	138	-	-	95	378	171	549
Debt securities issued	1,970	-	-	-	-	1,970	-	1,970
Provisions for liabilities and charges	16	1	-	-	-	17	592	609
Tax liabilities	-	-	-	-	-	-	14	14
Lease liabilities	-	45	-	-	-	45	95	140
Other liabilities	43	15	1	-	3	62	342	404
Subordinated liabilities	152	-	-	-	-	152	-	152
Equity	-	-	-	-	-	-	5,207	5,207
Total liabilities and equity	**18,409**	**764**	**570**	**-**	**2,762**	**22,505**	**25,370**	**47,875**
Currency gap	**(11,682)**	**13,286**	**(552)**	**4**	**(1,352)**	**(296)**	**296**	**-**

(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	406	305	711
Derivative financial instruments	5	-	-	-	-	5	-	5
Placements with and loans to other banks	73	-	-	-	1	74	38	112
Loans and advances to customers	2,575	8,251	-	6	73	10,905	9,618	20,523
Investment securities measured at amortized cost	924	16	-	-	568	1,508	672	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**	**9,551**	**23**	**6**	**1,362**	**18,908**	**22,654**	**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	218	448
Debt securities issued	978	-	-	-	-	978	-	978
Provisions for liabilities and charges	12	-	-	-	-	12	535	547
Tax liabilities	-	-	-	-	-	-	80	80
Lease liabilities	-	28	-	-	-	28	100	128
Other liabilities	11	7	7	-	1	26	252	278
Subordinated liabilities	529	-	-	-	-	529	-	529
Equity	-	-	-	-	-	-	5,143	5,143
Total liabilities and equity	**15,766**	**192**	**465**	**-**	**2,266**	**18,689**	**22,873**	**41,562**
Currency gap	**(7,800)**	**9,359**	**(442)**	**6**	**(904)**	**219**	**(219)**	**-**

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.

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.

51.Risk Management (continued)

Operational risk (continued)

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.

51. a) Securitization

Raiffeisenbank Austria d.d., Zagreb, executed a new synthetic transaction, ROOF CROATIA 2022, which was split into a senior, a mezzanine and a junior tranche. The credit risk of the mezzanine tranche is guaranteed by an institutional investor, while the credit risk of the junior and senior tranches is retained.

31.12.2022								
HRK million	**Date of contract**	**Maturity of contract**	**Maximum volume of securitized portfolio**	**Securitized portfolio**	**Out-standing portfolio**	**Portfolio**	**Secured tranche**	**Amount of secured tranche**
ROOF CROATIA 2022	December 2022	June 2034	2,758	2,751	4,958	Loans and advances to customers	Mezzanine	193

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.

52. Fair value of financial instruments (continued)

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.

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, i.e 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).

(all amounts are shown in HRK millions)

52. Fair value of financial instruments (continued)

Group 2022	Note	Carrying amount	Fair value			Total fair value
			Level 1	Level 2	Level 3	
Cash and current accounts with banks	7	13,599			13,599	13,599
Obligatory reserve with the Croatian National Bank	8	-	-	-	-	-
Financial assets at fair value through profit or loss						
Financial assets held for trading						
Debt securities	9	43	37	6		43
Equity securities		-	-	-	-	-
Derivative financial assets	9	89	-	89	-	89
Financial assets mandatorily at fair value through profit or loss						
Equity securities	9	13	2	11	-	13
Investment in investment funds	9	110	-	-	110	110
Financial assets at option fair value through profit or loss						
Debt securities	9	740	205	535	-	740
Derivative financial instruments	9a	239	-	239	-	239
Placements with and loans to other banks	10	1,912	-	-	1,912	1,912
Loans and advances to customers	11	23,951	-	-	22,248	22,248
Investment securities at FVOCI						
Debt securities	12b	3,266	3,194	72	-	3,266
Equity securities	12c	18	2	13	3	18
Investment securities at amortised cost						
Debt securities	12a	4,483	4,028	225	-	4,253
Other financial assets		95	-	-	95	95
		48,558	**7,468**	**1,190**	**37,967**	**46,625**
Financial liabilities at fair value through profit or loss	20	71	-	71	-	71
Deposits from banks	21	812	-	-	812	812
Deposits from companies and other similar entities	22	17,734	-	-	17,734	17,734
Deposits from individuals	23	19,883	-	-	19,769	19,769
Borrowings	24	1,388	-	-	1,365	1,365
Debt securities issued	25	1,970	1,984	-	-	1,984
Lease liabilities	15a	54	-	-	54	54
Other financial liabilities		224	-	-	224	224
Subordinated liabilities	28	152	-	-	153	153
		42,288	**1,984**	**71**	**40,111**	**42,166**

(all amounts are shown in HRK millions)

52. Fair value of financial instruments (continued)

Group 2021	Note	Carrying amount	Fair value Level 1	Level 2	Level 3	Total fair value
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)

Bank 2022	**Note**	**Carrying amount**		**Fair value**		**Total fair value**
			Level 1	**Level 2**	**Level 3**	
Cash and current accounts with banks	7	13,571	-	-	13,571	13,571
Obligatory reserve with the Croatian National Bank	8	-	-	-	-	-
Financial assets at fair value through profit or loss						
Debt securities	9	43	37	6	-	43
Equity securities		-	-	-	-	-
Derivative financial assets	9	89	-	89	-	89
Financial assets mandatorily at fair value through profit or loss						
Equity securities	9	13	2	11	-	13
Financial assets at option fair value through profit or loss						
Debt securities	9	157	35	122	-	157
Derivative financial instruments	9a	239	-	239	-	239
Placements with and loans to other banks	10	1,878	-	-	1,878	1,878
Loans and advances to customers	11	23,293	-	-	21,582	21,582
Investment securities at FVOCI						
Debt securities	12b	3,266	3,194	72	-	3,266
Equity securities	12b	18	2	13	3	18
Investment securities at amortised cost						
Debt securities	12a	3,683	3,595	19	-	3,614
Investments in subsidiaries	13	300	-	-	300	300
Other financial assets	-	69	-	-	69	69
		46,619	**6,865**	**571**	**37,403**	**44,839**
Financial liabilities at fair value through profit or loss	20	71	-	71	-	71
Deposits from banks	21	812	-	-	812	812
Deposits from companies and other similar entities	22	18,064	-	-	18,064	18,064
Deposits from individuals	23	19,883	-	-	19,769	19,769
Borrowings	24	549	-	-	548	548
Debt securities issued	25	1,970	1,984	-	-	1,984
Lease liabilities	15a	140	-	-	140	140
Other financial liabilities		211	-	-	211	211
Subordinated liabilities	28	152	-	-	153	153
		41,852	**1,984**	**71**	**39,697**	**41,752**

(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)

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 2021	**-**	**-**	**2**
Gains and losses in other comprehensive income	-	-	5
Reclassification in level 3 from level 1	-	64	-
At 31 December 2021	**-**	**64**	**7**
Chages in financial year	-	43	-
Gains and losses in other comprehensive income	-	-	(4)
Gains and losses in profit in loss	-	3	-
At 31 December 2022	**-**	**110**	**3**

Changes in financial assets in 2022 are related to changes in market conditions that were primarily brought about by the military operations in Ukraine, global geopolitical situation and crisis and growth of inflation on global markets. Financial asset denominated in HRK adjusted their movements and values to entry in eurozone.

Bank			**Fair value**		**Valuation Method**	**Significant valuation parameters not publicly available**
Financial assets at fair value through other comprehensive income						
Equity instruments	SKDD D.D.	HRSDA0RA0007	50,907	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	2,990,917	HRK	Valuation is based on discounted CF based on median value 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%

During the year 2022 two bonds are reclassified from Level 1 to Level 2: INA d.d. bond (maturity in 2026) and M-San group (maturity 2028). Both bonds are reclassified due to lack of regular turnover of listed bonds on Zagreb stock exchange (ZSE) and regular price quotations on Bloomberg.

52. Fair value of financial instruments (continued)

For securities classified in Level 3 assets, changes in valuation inputs that are not directly available would mean:

- 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 Leasing d.o.o. and Raiffeisen Consulting d.o.o., (2021: 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, value adjustment for prudent valuations, securitization positions, insufficient coverage for non-performing exposures 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 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 all prescribed capital buffers.

(all amounts are shown in HRK millions)

53. Capital management (continued)

	Group 2022	Group 2021	Bank 2022	Bank 2021
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)	1,176	819	929	563
Recognised profit	-	301	-	301
Legal, statutory and other reserves	181	181	173	173
Accumulated other comprehensive income	(105)	29	(105)	28
Deductions, in accordance with the CNB regulations				
Intangible assets	(236)	(215)	(235)	(212)
Value adjustment due to prudent valuations	(9)	(12)	(9)	(12)
Goodwill	(27)	(27)	-	-
Securitized positions	(27)	-	(27)	-
Deductions for investments in banks and financial institutions	(6)	(23)	(6)	(23)
Insufficient coverage for non-performing exposures	(36)	(21)	(35)	(21)
Total Common Equity Tier 1 capital	**4,544**	**4,665**	**4,318**	**4,430**
Additional TIER 1 capital	**297**	**297**	**297**	**297**
Tier 2 capital	**151**	**181**	**151**	**181**
Total Own Funds	**4,992**	**5,143**	**4,766**	**4,908**
Total risk-weighted assets	**22,091**	**22,589**	**21,410**	**21,612**
Hereof:				
Credit risk, counterparty and dilution risks and free deliveries	19,356	19,411	18,794	18,624
Position, foreign exchange and commodities risk	244	723	244	682
Operational risk	2,465	2,398	2,346	2,244
Credit valuation adjustment	26	57	26	62
Capital adequacy ratio	**22,60%**	**22.77%**	**22.26%**	**22.71%**

In 2022, 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 2022	Bank 2022	Group 2021	Bank 2021
Cost/income ratio	74.48%	70.05%	70.49%	59.08%
Cost/income ratio	66.92%	-	61.21%	-
Effective tax rate (ETR)	16.79%	15.96%	18.91%	17.16%
Loan/deposits ratio	63.67%	61.38%	64.54%	62.53%
Net interest margin	1.91%	1.89%	2.04%	2.01%
Non-performing exposure (NPE)	987	950	1,159	1,083
Non-performing loans (NPL)	987	950	1,159	1,083
Non-performing exposure ratio	2.09%	2.08%	2.83%	2.76%
Non-performing loans ratio	2.51%	2.46%	3.43%	3.32%
Non-performing exposure coverage ratio	59.07%	60.21%	62.21%	63.71%
Non-performing loans coverage ratio	59.07%	60.21%	62.21%	63.71%
Operating result	337	279	503	449
Operating income	2.053	1.539	2,084	1,349
Provisioning ratio*	0.13%	0.15%	0.27%	0.28%
Provisioning ratio (loans to customers)	0.23%	0.28%	0.34%	0.36%
Return on assets (ROA before tax)	0.85%	0.74%	1.44%	1.38%
Return on assets (ROA after tax)	0.71%	0.62%	1.19%	1.14%
Return on equity (ROE before tax)	7.99%	6.90%	12.36%	11.64%
Return on equity (ROE after tax)	6.64%	5.80%	10.22%	9.65%
Return on risk-adjusted capital (RORAC)	12.17%	-	16.97%	-
Common equity tier 1 ratio	20.57%	20.17%	20.66%	20.50%
Leverage ratio	9.64%	9.35%	11.10%	10.92%
Total risk-weighted assets (RWA)	22.091	21.410	22,589	21,609
Tier 1 ratio	21.92%	21.56%	21.97%	21.87%
Total capital ratio	22.60%	22.26%	22.77%	22.71%

*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.

54.Key business indicators (continued)

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. 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

At the beginning of March 2023, there was a crisis in the American banking sector with the collapse of three American banks, Silvergate Capital, Silicon Valley Bank and Signature Bank. The mentioned banks had specific business structures that exposed them to significant losses in the value of their assets under conditions of tightening monetary policy. It is not excluded that the current macroeconomic situation and the influence of monetary policy will negatively affect other banks in the USA. In Europe, the Swiss bank Credit Suisse, as a systemically important bank that already had losses even before the recent changes in conditions on the financial markets, presented a recapitalization plan to investors, which was not accepted. To avoid further collapse of a systemically important bank, the Swiss National Bank and the Swiss government supported another systemically important bank, UBS, in its takeover of Credit Suisse.

The operations of the Bank and the Group were not negatively affected by the above events.

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, 2023.

Signed on behalf of Raiffeisenbank Austria d.d.

Liana Keserić
President of the Management Board

Ante Odak
Member of the Management Board

Višnja Božinović
Member of the Management Board

Georg Feldscher
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, 47/2020 and 114/22)) 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 119/2021 and 108/2022)). The following tables present financial statements (schedules) prepared in accordance to the above mentioned Decisions.

Statement of financial position (Balance sheet) - unaudited		**Group 2022**	**Group 2021**
Assets			
1.	Cash and cash equivalents, central bank receivables and other demand deposits (from 2 to 4)	13,579	10,222
2.	*Cash in hand*	1,336	1,514
3.	*Cash receivables and liabilities at central banks*	12,004	8,573
4.	*Other demand deposits*	239	135
5.	Financial assets for trading (from 6 to 9)	133	460
6.	*Derivatives*	88	70
7.	*Equity instruments*	2	3
8.	*Debt securities*	43	387
9.	*Loans and advances*	-	-
10.	Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)	12	21
11.	*Equity instruments*	12	21
12.	*Debt securities*	-	-
13.	*Loans and advances*	-	-
14.	Financial assets at fair value through profit or loss (15+16)	157	221
15.	*Debt securities*	157	221
16.	*Loans and advances*	-	-
17.	Financial assets at fair value through other comprehensive income (from 18 to 20)	3,284	4,600
18.	*Equity instruments*	18	11
19.	*Debt securities*	3,266	4,589
20.	*Loans and advances*	-	-
21.	Financial assets at amortised cost (22 + 23)	29,589	25,794
22.	*Debt securities*	3,683	2,235
23.	*Loans and advances*	25,906	23,559
24.	Derivatives – hedge accounting	239	5
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	(12)	11
26.	Investments in subsidiaries, joint ventures and associates	281	272
27.	Tangible assets	937	896
28.	Intangible assets	408	398
29.	Tax assets	104	59
30.	Other assets	185	102
31.	Non-current assets and disposal groups classified as held for sale	-	60
32.	**TOTAL ASSETS (1. + 5. + 10. + 14. + 17. + 21. + from 24. to 31.)**	**48,896**	**43,121**

(all amounts are shown in HRK millions)

Statement of financial position (Balance sheet) - unaudited (continued)

		Group 2022	Group 2021
Liabilities			
33.	Financial liabilities for trading (from 34 to 38)	49	59
34.	*Derivatives*	49	59
35.	*Short positions*	-	-
36.	*Deposits*	-	-
37.	*Debt securities issued*	-	-
38.	*Other financial liabilities*	-	-
39.	Financial liabilities designated at fair value through profit or loss (from 40 to 42)	-	-
40.	*Deposits*	-	-
41.	*Debt securities issued*	-	-
42.	*Other financial liabilities*	-	-
43.	Financial liabilities at amortised cost (from 44 to 46)	42,461	36,788
44.	*Deposits*	40,213	35,611
45.	*Debt securities issued*	1,970	978
46.	*Other financial liabilities*	278	199
47.	Derivatives – Hedge accounting	22	10
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	681	599
50.	Tax liabilities	11	80
51.	Share capital repayable on demand	-	-
52.	Other liabilities	153	122
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33. + 39. + 43. + from 47. to 53.)**	**43,377**	**37,658**
Equity			
	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	(105)	29
60.	Retained earnings	1,176	820
61.	Revaluation reserves	-	-
62.	Other reserves	181	181
63.	(-) Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	337	503
65.	(-) Interim dividends	-	-
66.	Minority interests (Non-controlling interests)	-	-
67.	**TOTAL EQUITY (from 55. to 66.)**	**5,519**	**5,463**
68.	**TOTAL LIABILITIES AND EQUITY (54. + 67.)**	**48,896**	**43,121**

(all amounts are shown in HRK millions)

	Statement of financial position (Balance sheet) - unaudited (continued)	Bank 2022	Bank 2021
	Assets		
1.	Cash and cash equivalents, central bank receivables and other demand deposits (from 2 to 4)	13,579	10,222
2.	*Cash in hand*	1,336	1,514
3.	*Cash receivables and liabilities at central banks*	12,004	8,573
4.	*Other demand deposits*	239	135
5.	Financial assets for trading (from 6 to 9)	134	469
6.	*Derivatives*	89	79
7.	*Equity instruments*	2	3
8.	*Debt securities*	43	387
9.	*Loans and advances*	-	-
10.	Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)	11	58
11.	*Equity instruments*	11	21
12.	*Debt securities*	-	-
13.	*Loans and advances*	-	37
14.	Financial assets at fair value through profit or loss (15+16)	157	221
15.	*Debt securities*	157	221
16.	*Loans and advances*	-	-
17.	Financial assets at fair value through other comprehensive income (from 18 to 20)	3,284	4,425
18.	*Equity instruments*	18	11
19.	*Debt securities*	3,266	4,414
20.	*Loans and advances*	-	-
21.	Financial assets at amortised cost (22 + 23)	28,927	24,614
22.	*Debt securities*	3,683	2,180
23.	*Loans and advances*	25,244	22,434
24.	Derivatives – hedge accounting	239	5
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	(12)	11
26.	Investments in subsidiaries, joint ventures and associates	301	374
27.	Tangible assets	632	602
28.	Intangible assets	380	368
29.	Tax assets	98	49
30.	Other assets	145	86
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.)**	**47,875**	**41,562**

(all amounts are shown in HRK millions)

Statement of financial position (Balance sheet) – unaudited (continued)		Bank 2022	Bank 2021
Liabilities			
33.	Financial liabilities for trading (from 34 to 38)	49	59
34.	*Derivatives*	49	59
35.	*Short positions*	-	-
36.	*Deposits*	-	-
37.	*Debt securities issued*	-	-
38.	*Other financial liabilities*	-	-
39.	Financial liabilities designated at fair value through profit or loss (from 40 to 42)	-	-
40.	*Deposits*	-	-
41.	*Debt securities issued*	-	-
42.	*Other financial liabilities*	-	-
43.	Financial liabilities at amortised cost (from 44 to 46)	41,781	35,595
44.	*Deposits*	39,460	34,340
45.	*Debt securities issued*	1,970	978
46.	*Other financial liabilities*	351	277
47.	Derivatives – Hedge accounting	22	10
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-
49.	Provisions	665	579
50.	Tax liabilities	14	80
51.	Share capital repayable on demand	-	-
52.	Other liabilities	138	96
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33. + 39. + 43. + from 47. to 53.)**	**42,669**	**36,419**
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	(105)	28
60.	Retained earnings	929	563
61.	Revaluation reserves	-	-
62.	Other reserves	173	173
63.	(-) Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	279	449
65.	(-) Interim dividends	-	-
66.	Minority interests (Non-controlling interests)	-	-
67.	**TOTAL EQUITY (from 55. to 66.)**	**5,206**	**5,143**
68.	**TOTAL LIABILITIES AND EQUITY (54. + 67.)**	**47,875**	**41,562**

(all amounts are shown in HRK millions)

Income Statement - unaudited		Group 2022	Group 2021
1.	Interest income	952	895
2.	(Interest expense)	(112)	(92)
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	55	51
5.	Fee and commission income	863	717
6.	(Fee and commission expense)	(483)	(385)
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	1
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	281	225
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	1	1
10.	Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	(20)	(3)
11.	Gains or (-) losses from hedge accounting, net	-	-
12.	Exchange differences [gain or (-) loss], net	(10)	(41)
13.	Gains or (-) losses on derecognition of investment in subsidiaries, joint ventures and associates, net	-	-
14.	Gains or (-) losses upon derecognition of non-financial assets, net	(8)	(4)
15.	Other operating income	93	100
16.	(Other operating expense)	(64)	(36)
17.	**TOTAL OPERATING INCOME, NET (1. to 16.)**	**1,548**	**1,429**
18.	(Administrative expense)	(810)	(672)
19.	(Cash contributions to resolution funds and deposit guarantee schemes)	(31)	(23)
20.	(Depreciation)	(140)	(132)
21.	Modification gains or (-) losses, net	(1)	1
22.	(Provisions or (-) reversal of provisions)	(56)	(122)
23.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(56)	109
24.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates))	(92)	-
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 subsidiaries, joint ventures and associates accounted for using the equity method	27	14
28.	Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	6	1
29.	**PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS (17. to 28.)**	**395**	**605**
30.	(Tax expense or (-) income related to profit or loss from continuing operations)	(58)	(102)
31.	**PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS (29. - 30.)**	**337**	**503**
32.	**Profit or (-) loss after tax from discontinued operations (33. – 34.)**	**-**	**-**
33.	**Profit or (-) loss before tax from discontinued operations**	**337**	**-**
34.	**(Tax expense or (-) income related to discontinued operations)**	**-**	**-**
35.	**PROFIT OR (-) LOSS FOR THE YEAR (31.+32.;36.+37)**	**337**	**503**
36.	Attributable to minority interest [non-controlling interests]	-	-
37.	Attributable to owners of the parent	337	503

(all amounts are shown in HRK millions)

	Statement of comprehensive income - unaudited	Group 2022	Group 2021
1.	**Profit or (-) loss for the year**	**337**	**502**
2.	Other comprehensive income (3. + 15.)	(134)	(37)
3.	***Items that will not be reclassified to profit or loss (from 4. to 10. + 13 + 14)***	**(6)**	**2**
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*	(6)	1
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
15.	***Items that may be reclassified to profit of loss (from 16. to 23.)***	**(128)**	**(39)**
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*	(155)	(43)
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*	27	4
24.	**Total comprehensive income for the year (1 + 2; 25 + 26)**	**203**	**465**
25.	Attributable to minority interest (non-controlling interest)	-	-
26.	Attributable to owners of the parent	203	465

(all amounts are shown in HRK millions)

Income statement - unaudited

		Bank 2022	Bank 2021
1.	Interest income	924	837
2.	(Interest expense)	(108)	(78)
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	55	51
5.	Fee and commission income	862	714
6.	(Fee and commission expense)	(482)	(384)
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	1
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	271	220
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	1	1
10.	Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	(20)	(4)
11.	Gains or (-) losses from hedge accounting, net	-	-
12.	Exchange differences [gain or (-) loss], net	(7)	(43)
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	(13)	(2)
15.	Other operating income	42	29
16.	(Other operating expense)	(64)	(35)
17.	**TOTAL OPERATING INCOME, NET (1. to 16.)**	**1,461**	**1,307**
18.	(Administrative expense)	(764)	(612)
19.	(Cash contributions to resolution funds and deposit guarantee schemes)	(31)	(23)
20.	(Depreciation)	(125)	(116)
21.	Modification gains or (-) losses, net	(1)	1
22.	(Provisions or (-) reversal of provisions)	(57)	(120)
23.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	(65)	107
24.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates))	(92)	(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 subsidiaries, 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	6	-
29.	**PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS (17. to 28.)**	**332**	**542**
30.	(Tax expense or (-) income related to profit or loss from continuing operations)	53	93
31.	**PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS (29. - 30.)**	**279**	**449**
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.)**	**279**	**449**
36.	Attributable to minority interest [non-controlling interests]	-	-
37.	Attributable to owners of the parent	279	449

(all amounts are shown in HRK millions)

Statement of comprehensive income - unaudited

		Bank 2022	Bank 2021
1.	**Profit or (-) loss for the year**	**279**	**449**
2.	Other comprehensive income (3. + 15.)	(132)	(35)
3.	**Items that will not be reclassified to profit or loss (from 4. to 10. + 13. + 14.)**	**(6)**	**2**
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*	(6)	1
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
15.	**Items that may be reclassified to profit of loss (from 16 to 23)**	**(126)**	**(37)**
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*	(154)	(41)
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*	28	4
24.	**Total comprehensive income for the year (1 + 2; 25 + 26)**	**147**	**414**
25.	Attributable to minority interest (non-controlling interest)	-	-
26.	Attributable to owners of the parent	147	414

(all amounts are shown in HRK millions)

Statement of cash flows – indirect method

		Group 2022	Group 2021
	Operating activities under indirect method		
9.	Profit/(loss) before tax	**395**	**603**
	Adjustments:		
10.	Impairment losses	112	13
11.	Depreciation and amortization	140	132
12.	Unrealised (gains)/losses on securities at fair value through profit or loss	20	(1)
13.	(Gains)/losses from sale of tangible assets	-	-
14.	Other non cash items	(885)	(813)
	Changes in assets and liabilities due to operating activities		
15.	Deposits with the Croatian National Bank	1,870	-
16.	Deposits with banking institutions and loans to financial institutions	(125)	14
17.	Loans and advances to other clients	(1,740)	(1,600)
18.	Securities and other financial instruments at fair value through other comprehensive income	-	-
19.	Securities and other financial instruments held for trading	306	72
20.	Securities and other financial instruments at fair value through profit or loss which are not actively traded	(147)	(85)
21.	Securities and other financial instruments mandatorily at FVTPL	10	(2)
22.	Securities and other financial instruments at amortized cost	-	-
23.	Other assets from operating activities	(43)	63
24.	Deposits from financial institutions	510	2
25.	Transaction accounts of other clients	4,133	5,280
26.	Savings deposits of other clients	-	-
27.	Time deposits of other clients	(1,054)	(1,043)
28.	Derivative financial liabilities and other traded liabilities	(7)	(131)
29.	Other liabilities	111	(6)
30.	Interest received	858	882
31.	Dividend received	-	-
32.	Interest paid	(102)	(79)
33.	(Income tax paid)	(62)	(7)
34.	**Net inflow/(outflow) of cash from operating activities (from 1. to 33.)**	**4,300**	**3,294**
	Investing activities		
35.	Cash receipts from/(payments to acquire) tangible and intangible assets	(191)	(148)
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	(77)	(577)
38.	Dividends received	55	51
39.	Other receipts/(payments) from investing activities	165	99
40.	**Net cash flow from investing activities (from 35. to 39.)**	**(48)**	**(575)**
	Financing activities		
41.	Net increase/(decrease) in loans received from financing activities	308	(1,751)
42.	Net increase/(decrease) of debt securities issued	1,000	975
43.	Net increase/(decrease) of Tier 2 capital instruments	(369)	-
44.	Increase of share capital	-	-
45.	(Dividends paid)	(120)	-
46.	Other receipts/(payments) from financing activities	(28)	(69)
47.	**Net cash flow from financing activities (from 41. to 46.)**	**791**	**(845)**
48.	**Net increase/(decrease) in cash and cash equivalents (34. + 40. + 47.)**	5,043	1,874
49.	**Cash and cash equivalents at the beginning of the year**	**10,222**	**8,308**
50.	Effect of foreign exchange differences on cash and cash equivalents	34	40
51.	**Cash and cash equivalents at the end of the year (48. + 49. + 50.)**	**15,299**	**10,222**

(all amounts are shown in HRK millions)

Statement of cash flows – indirect method - unaudited		Bank 2022	Bank 2021
	Operating activities under indirect method		
9.	Profit/(loss) before tax	**332**	**542**
	Adjustments:		
10.	Impairment losses	123	13
11.	Depreciation and amortization	125	116
12.	Unrealised (gains)/losses on securities at fair value through profit or loss	20	(1)
13.	(Gains)/losses from sale of tangible assets	-	-
14.	Other non cash items	(780)	(766)
	Changes in assets and liabilities due to operating activities		
15.	Deposits with the Croatian National Bank	1,870	-
16.	Deposits with banking institutions and loans to financial institutions	(307)	(1)
17.	Loans and advances to other clients	(2,656)	(1,805)
18.	Securities and other financial instruments at fair value through other comprehensive income	-	-
19.	Securities and other financial instruments held for trading	331	79
20.	Securities and other financial instruments at fair value through profit or loss which are not actively traded	(167)	(90)
21.	Securities and other financial instruments mandatorily at FVTPL	53	-
22.	Securities and other financial instruments at amortized cost	-	-
23.	Other assets from operating activities	(52)	32
24.	Deposits from financial institutions	258	99
25.	Transaction accounts of other clients	4,172	5,278
26.	Savings deposits of other clients	-	-
27.	Time deposits of other clients	794	(925)
28.	Derivative financial liabilities and other traded liabilities	(10)	(132)
29.	Other liabilities	154	(14)
30.	Interest received	859	862
31.	Dividend received	-	-
32.	Interest paid	(93)	(62)
33.	(Income tax paid)	(56)	-
34.	**Net inflow/(outflow) of cash from operating activities (from 1. to 33.)**	**4,970**	**3,225**
	Investing activities		
35.	Cash receipts from/(payments to acquire) tangible and intangible assets	(136)	(143)
36.	Cash receipts from the disposal of/(payments for the investment in) subsidiaries, associates and joint ventures	(75)	-
37.	Cash receipts from sales of/(cash payments to acquire) securities and other investment securities	(503)	(617)
38.	Dividends received	55	51
39.	Other receipts/(payments) from investing activities	172	51
40.	**Net cash flow from investing activities (from 35. to 39.)**	**(487)**	**(658)**
	Financing activities		
41.	Net increase/(decrease) in loans received from financing activities	102	(1,618)
42.	Net increase/(decrease) of debt securities issued	1,000	975
43.	Net increase/(decrease) of Tier 2 capital instruments	(371)	-
44.	Increase of share capital	-	-
45.	(Dividends paid)	(120)	-
46.	Other receipts/(payments) from financing activities	(51)	(50)
47.	**Net cash flow from financing activities (from 41. to 46.)**	**560**	**(693)**
48.	**Net increase/(decrease) in cash and cash equivalents (34. + 40. + 47.)**	5,043	1,874
49.	**Cash and cash equivalents at the beginning of the year**	**10,222**	**8,308**
50.	Effect of foreign exchange differences on cash and cash equivalents	34	40
51.	**Cash and cash equivalents at the end of the year (48. + 49. + 50.)**	**15,299**	**10,222**

Statement of changes in equity (unaudited)
As at 31 December 2022
(all amounts are shown in HRK millions)

Statement of changes in equity

	Group 2022												Non-controlling interest		
	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**	**Accumu-lated other comprehen-sive income**	**Other items**	**Total**
1.	**Opening balance [before restatement]**	**3,621**	**12**	**-**	**297**	**29**	**820**		**181**		**503**				**5,463**
2.	Correction of errors														
3.	Changes of accounting policies														
4.	**Opening balance [current period] (1 + 2 + 3)**	**3,621**	**12**	**-**	**297**	**29**	**820**	**-**	**181**	**-**	**503**	**-**	**-**	**-**	**5,463**
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						(120)								(120)
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						475				(503)				(28)
17.	Equity increase or (-) decrease resulting from business combination						1								1
18.	Share based payments														
19.	Other increase or (–) decrease of owner's instruments														
20.	Total comprehensive income for the year					(134)					337				203
21.	**Closing balance [current period] (from 4 to 20)**	**3,621**	**12**	**-**	**297**	**(105)**	**1,176**	**-**	**181**	**-**	**337**	**-**	**-**	**-**	**5,519**

Statement of changes in equity - unaudited

	Bank 2022 (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**	**28**	**563**	**-**	**173**	**-**	**449**	**-**	**-**	**-**	**5,143**
2.	Correction of errors														
3.	Changes of accounting policies														
4.	**Opening balance [current period] (1 + 2 + 3)**	**3,621**	**12**	**-**	**297**	**28**	**563**	**-**	**173**	**-**	**449**	**-**	**-**	**-**	**5,143**
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						(120)								(120)
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						421				(449)				(28)
17.	Equity increase or (-) decrease resulting from business combination														
18.	Share based payments														
19.	Other increase or (–) decrease of owner's instruments						65								65
20.	Total comprehensive income for the year					(133)					279				146
21.	**Closing balance [current period] (from 4 to 20)**	**3,621**	**12**	**-**	**297**	**(105)**	**929**	**-**	**173**	**-**	**279**	**-**	**-**	**-**	**5,206**

Statement of changes in equity - unaudited

													Non-controlling interest		
	Group 2021 **All amounts in HRK million)**	**Share capital**	**Share premium**	**Equity instruments issued other than share capial**	**Other equity instruments**	**Accumula-ted other comprehen-sive income**	**Retained earnings**	**Revaluation reserves**	**Other reserves**	**Treasury shares**	**Profit or (-) loss attributable to owners of the parent**	**Interim divi-dends**	**Accumu-lated other comprehen-sive income**	**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 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.

- In statements under the CNB Decision, guarantee deposits and credit line are presented under position "Other demand deposits" and in report according to International Financial Reporting Standards (IFRS) 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 IFRS statement 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 IFRS report 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, 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 IFRS statement 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 IFRS statement, 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 IFRS report they are reported within item "Other liabilities".

Income statement

- In the IFRS statement 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 in IFRS report it must be consolidated and consequently eliminated.
- According to IFRS requirements, 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 IFRS requirements, 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 IFRS requirements 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 IFRS statements 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 IFRS, 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.