Raiffeisenbank Austria d.d.

Annual report
for the year ended 31 December 2023

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 2023 Annual Report as audited by Deloitte, the international firm of auditors.

Last year, the Bank generated profit after tax of EUR 96 million, while the profit at the local Group level was EUR 105 million. The results were achieved in the first year after Croatia joined the European Monetary Union.

The introduction of the euro as the official currency required business adaptation to the permanent change in the currency structure of assets and liabilities, as well as the structure of demand for financial products and services. Loans with a currency clause, which in the period before the introduction of euro made it possible to maintain the currency balance in the conditions of the predominant foreign currency component in the Bank's liabilities, disappeared with the introduction of euro as official currency. The conversion of deposits, loans and transactions in euros into operations in domestic currency has significantly reduced the demand for financial services related to currency arbitrage. With the introduction of the euro, the regulation of the bank operations was aligned with the rules in the euro area. The reserve requirement rate was abolished with a significant increase in liquidity. The Bank deposited excess liquidity with the central bank, and deposits with the central bank in the euro area earn interest income at the deposit rate of the European Central Bank.

The demand for loans and financial services, which reflects the confidence of consumers and entrepreneurs, remained at an elevated level despite the restrictive measures of the European Central Bank. In the previous period of monetary expansion, Croatia was outside the euro area, so domestic credit institutions did not participate in the creation of additional liquidity based on special and general programs of the European Central Bank. As a result, although credit institutions in Croatia have been included in the euro area since 2023, the European Central Bank's liquidity withdrawal measures did not have an impact on the liquidity of credit institutions in Croatia. Therefore, the transfer of the European Central Bank's measures to financing conditions on the local financial market, and thus to the growth of the economy, investments and employment, has also been eased.

Risk provisions reflect the best value assessment of financial assets. The realized increase in sales prices in the business sector and the increase in the real wages of employees had a positive effect on the risk classification of clients. The slow transfer of restrictive monetary policy measures to lending conditions mitigated the negative impact on borrowers' riskiness, so the positive impacts prevailed, which contributed to the increase in the Bank's operating 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 housing loans remained at a high level thanks to incentives from the state subsidy program for young families and the continued rise in prices on the real estate market. Higher inflation rates further increase the attractiveness of investing in real estate. The demand for cash loans increased throughout the year in parallel with the increase in confidence in the sustainability of the economy and the strengthened tendency to increase the real incomes of the households. 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.

Positive business results were achieved in the local Group. In the area of savings and investment products, a positive return was achieved in the previous year after the cycle of increasing market interest rates was ended. The slowdown in inflation reduces the pressure on interest rates, which increases the attractiveness of pension savings. At the pension insurance company, returns on assets were balanced with the indexation rate of liabilities.
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 financial year 2023, the first where Croatia had the euro as official legal tender, was a successful one for the business operations of Raiffeisenbank Austria d.d. Zagreb. 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 after the introduction of the euro as the official currency from the beginning of the year. Since the entry into the euro area coincided with the tightening process in the monetary policy of the European Central Bank marked by an increase in key interest rates, the clients' demand for financial products and services also changed, which required an additional adjustment on the supply side. Changes in customer preferences towards digital communication channels and the use of financial services increase the importance of continuing the process of digitalization, development of financial services and innovative sales and communication channels with customers.

In 2023, members of the Supervisory Board held 4 ordinary and 16 extraordinary meetings. The overall attendance rate for Supervisory Board meetings in the financial year 2023 was around 99 percent.

The Supervisory Board regularly and comprehensively monitored the business performance and risk developments of Raiffeisenbank Austria d.d. Zagreb. Discussions were regularly held with the Management Board on the capital adequacy 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 the 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 specific issues in more depth, this was provided to members of the Supervisory Board without delay and to their satisfaction.

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

- the financial results and mid term plan (2024 – 2026),
- the overview of the successful implementation and introduction of the euro,
- the macroeconomic expectations and inflationary pressures,
- the implementation and improvement of the anti-money laundering process,
- the adaptive transformation in retail business,
- the strategic business model activities along with optimization of companies and equity shares owned by the Bank,
- the regulatory supervision activities of the CNB/ECB,
- the specific topics related to A-IRB application, securitization, MREL requirements,
- and the regular reporting within the risk management scope.

I would like to take this opportunity to sincerely thank the Management Board and all employees of Raiffeisenbank Austria d.d. Zagreb for their unwavering efforts, and also our customers for their continued trust.

On behalf of the Supervisory Board

Sabine Zucker

President of the Supervisory Board

1. Macroeconomic environment

- Economic Review

At the beginning of 2023, Croatia became the 20th member of the euro area, and, in parallel with the Schengen accession, the tenth anniversary of membership in the European Union has been rounded off. Monetary integration, even earlier than the introduction of the euro as the official currency, was anticipated in the perception of Croatian risk, as evident also in the improvement of the credit rating of the Republic of Croatia. By joining the euro area, the currency risk has been eliminated, interest rates are significantly lower than they would be if the Republic of Croatia had remained outside the euro area, transaction costs are also lower, and the overall Croatian economy has become more resistant to financial crises and shocks.

This is especially important, given the uncertain and challenging geopolitical and economic environment, which, although having improved compared to the previous year, prevailed during 2023. Real economic activity in the euro area mostly stagnated with modest positive or negative growth rates, and, geographically, the dynamics of economic trend was uneven. Among the larger economies, Germany, as well as Italy and the Netherlands, stood out with their negative developments in the past year. Economic activity in the euro area further slowed down in the last quarter of 2023.

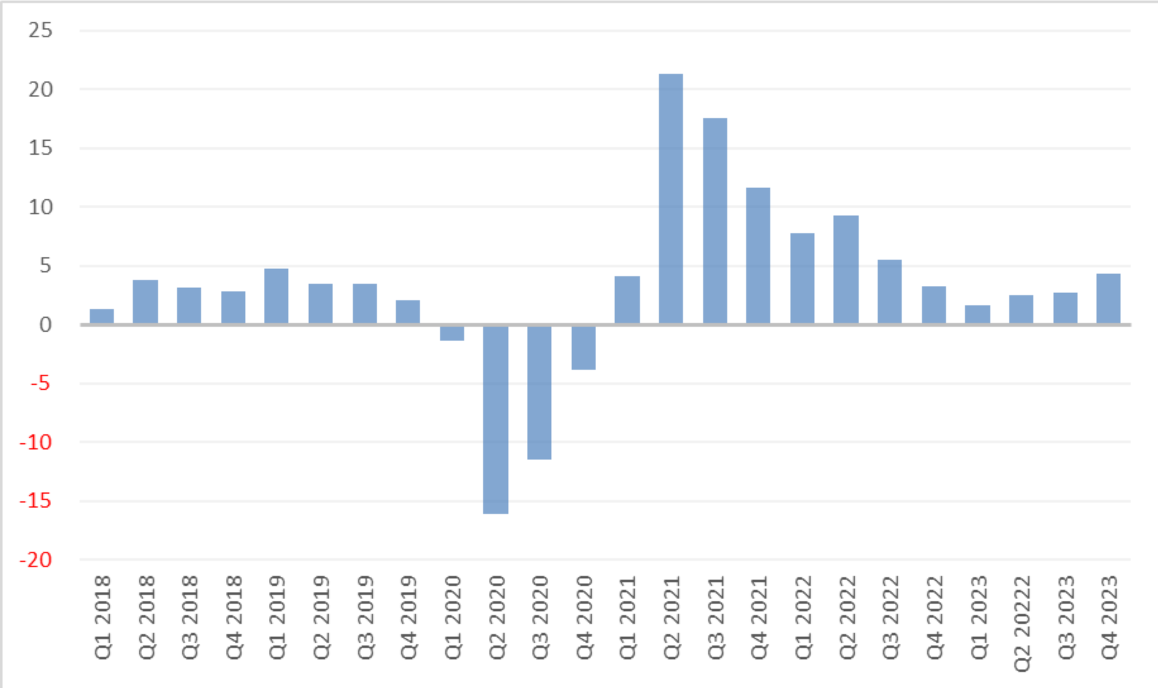
Real GDP growth at 2.8% per cent realized in 2023 was led by the continuation of favorable trends in personal consumption and the acceleration of investments. Personal consumption finds support in the strong labor market, where continued employment growth was recorded during 2023, and the administrative employment rate dropped to historically low levels. Furthermore, in addition to the double-digit growth in nominal wages, with the stabilization of the annual growth rate of consumer prices, the acceleration of wage growth in real terms also contributed to the improvement of consumer optimism. This is also reflected in the relatively strong growth of retail trade, which in 2023 recorded the strongest real growth since 2019. In 2023, tourism recorded an increase in overnight stays and an even stronger increase in income from tourism, which, it is important to acknowledge, was also affected by inflationary pressures. Solid consumer lending during 2023 is also evident from monetary statistics, with non-purpose cash loans recording a continuous acceleration of the annual growth rate dynamics. On the other hand, the movements in the industry remained suppressed by various factors, such as the redistribution of consumption shifting from goods to services after the end of the pandemic, then the strong energy shock, which in Europe, as an energy-dependent continent, caused an energy crisis and largely affected the strengthening of price pressures, which was consequently reflected in the tightening of financing conditions. Since all those developments affected Croatia's key trading partners, especially the German export and industrial-oriented economy, subdued activities inevitably spilled over to the domestic market, so the processing sector in Croatia also found itself in recession. This was also reflected in the gross value-added data, which indicated that the processing industry has had a negative contribution to economic activity since the last quarter of 2022. However, in the last quarter of 2023, the processing industry achieved a slight growth of 0.8% year-on-year, which is encouraging in terms of the first signs of recovery in the industry.

As private sector investments are still burdened by a high level of uncertainty and the growth of borrowing costs, the continued growth of the investment activity is still dominated by the high level of public investments. In 2023, unspent funds from the previous financial envelope (2013-2020), the recovery and resilience program funds and the new multi-year financial framework envelope were still available to Croatia. The total potential amounts to more than 5% of GDP.

The use of the NGEU financial instrument is conditional upon the fulfillment of reform measures of the national recovery and resilience plan. Croatia's recovery and resilience plan comprises reform measures and key investments that are planned to be implemented by the end of 2026. 2.9 billion euros were distributed to Croatia through pre-financing and three installments based on fulfilled reform indicators by the end of 2023. Preconditions for the payment of the fourth tranche include the reform of the public sector wage system, while the fifth tranche, which is planned to be distributed by the end of 2024 upon fulfillment of the requirements, will include the reform of the state-owned enterprises management, which is also a key criterion for Croatia's efforts to join the OECD.

1. Macroeconomic environment (continued)

Gross domestic product, real growth rates, in %

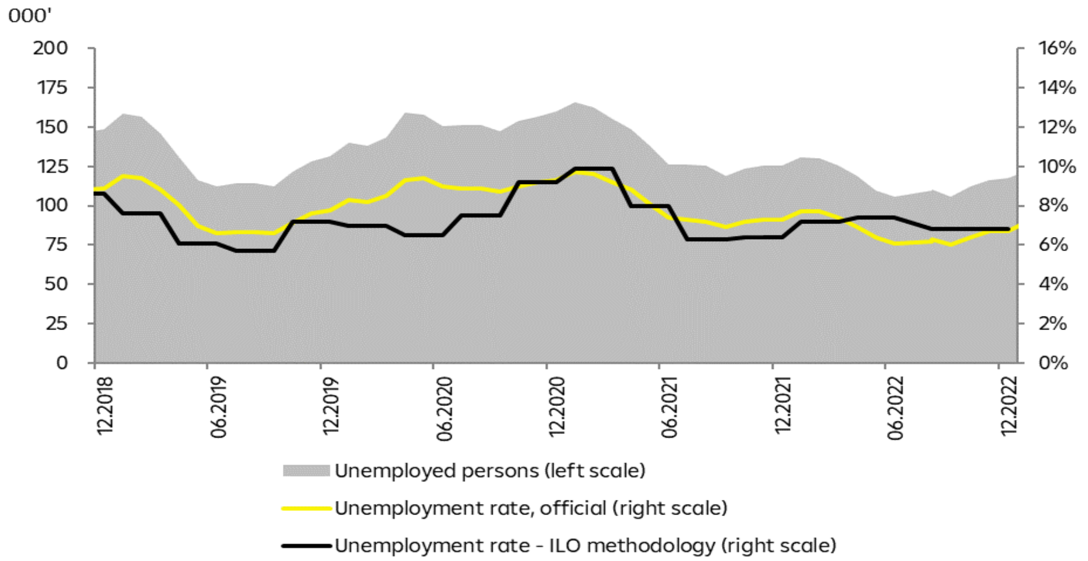


Sources: CBS, Raiffeisen Research

In 2023, the labor market remained strong, marked by employment growth, an annual decline in the unemployed and an increasing share of foreign workers and pensioners who took advantage of the opportunity to return to the workforce. So far, subdued economic activity in the monetary union has not had a noticeable impact on employment growth. The registered unemployment rate remained within the range of 5.6% to 7.2% in 2023, while the rate of 5.6% from June and July was the lowest recorded in recent Croatian history. At the level of the whole of 2023, the average number of unemployed was down by 6.2% compared to the average number in 2022, having declined to 108,921 unemployed persons. Due to the decrease in the number of registered unemployed persons, with a mild growth in the number of the active population, the average registered unemployment rate dropped to the historically lowest level of 6.2% in 2023. According to CES data, more than 190,000 applications for residence and work of foreign workers were received in the period January-December 2023. The applications related to 538 professions, and the occupations which were most requested and for which a positive opinion was issued were in construction and service industries. The inflow of workers from countries outside the European Union in the aforementioned industries is a reflection of a gap between supply and demand on the domestic labor market and the nature of the work. More than 160,000 applications were given positive opinion. The inflow of workers from third countries reflects the challenges of employers in finding workforce in conditions of certain economic growth and unfavorable demographic changes.

1. Macroeconomic environment (continued)

Registered unemployed persons, unemployment rate

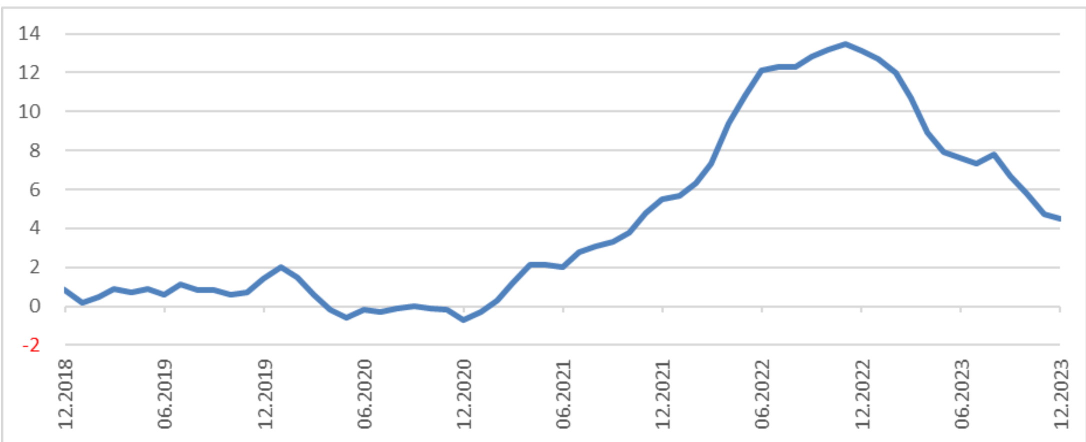


Sources: CSB, CES, Raiffeisen Research

The annual inflation rate measured by the consumer price index in Croatia was 8 percent in 2023. Without the indirect effect of the price of energy, food and industrial raw materials on the world market on imported producer prices, and with the effect of the base period, and high price rises during 2022, the annual growth of consumer prices slowed down continuously during 2023. In the first six months of the year, this was mostly the result of lower energy prices, whereas the slowdown in inflationary pressures on food prices contributed to this in the last few months. In 2023, the persistence of inflation was significantly affected by the increase in service prices, which is reflected in core inflation (excluding energy and food prices), although the growth in the prices of industrial products slowed down continuously since the beginning of the year as a result of weaker import inflationary pressures.

Yet, the slowdown in the growth of service prices on an annual level became more prominent after the peak of the tourist season, when, due to a robust demand for hospitality-related services, it presented a stubborn character. Nominal wage trends, which recorded strong double-digit annual growth during 2023 are particularly reflected in the service prices. Therefore, it can be concluded that service prices were affected by solid demand and higher input costs.

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



Sources: CBS, CES, Raiffeisen Research

1. Macroeconomic environment (continued)

- Foreign Trade

Foreign trade conditions improved markedly in 2023 as a result of the easing of import price pressures, mainly as a result of the partial normalization of energy and raw materials prices on the world market, which led to better terms of trade in goods and contributed to the reduction in the foreign trade deficit. Besides the foreign trade in goods, international exchange of services also recorded a relatively strong improvement. Physical indicators of tourist activity increased both in pre-season and post-season, however, on the other hand, the number of overnight stays by foreign guests during high season was slightly lower yoy.

The current account of the balance of payments recorded a significant improvement at the end of Q3 yoy on the back of the result of international exchange in services (tourism), which, in addition to the good tourist season, was also generated by the rise in prices in service-related activities. Disbursements under EU funds to end users and the inflow of workers' remittances operated in the same direction. This is unsurprising, given that that 2023 was the last year for disbursements of funds from the 2014-2020 financial envelope. On a cumulative basis, in the period from the last quarter of 2022 to the end of the third quarter of 2023, the current account deficit was 0.1% of GDP.

High liquidity in the financial system, which persisted in 2023 too, resulted in a sufficient offer of loans for potential borrowers from the private sector. On the other hand, the tightening of financing conditions, with higher interest rates, affected the demand for corporate loans. The lower need for investment financing of corporates also had a negative effect. The pressure on foreign borrowing of the private sector, both with financial institutions and with corporates, was also absent due to the entry into the euro area. Owing to the strong growth of nominal GDP, gross foreign debt in relation to GDP, as a relative indicator of external indebtedness, continued its downward trend (when the impact of the increase in central bank debt due to the application of the rules on posting euro cash in the central bank balance sheets of the Eurosystem is excluded, the effect of which on the application on the CNB’s foreign position is actually neutral).

- Fiscal Developments

Consumption-backed growth and a budget based on consumption taxation are greatly conducive to public finances. It is precisely the favorable economic outlook and resilient public finances that were cited as the main reason for improving Croatia's credit rating outlook from stable to positive in 2023. Tourist consumption realized in a successful tourist season had a significant contribution to the stability of public finances. After realizing the surplus in 2022, and with rising budgetary costs in 2023, as a consequence also of expenditures for the package of government aid measure package to mitigate the inflationary effects and with the rise in energy prices, the general government balance returned to slightly negative territory in 2023. However, against the backdrop of strong nominal GDP growth, and a moderate budget deficit, the share of public debt in GDP continued to decrease and fell to 64.4 per cent at the end of the third quarter, the lowest level since the end of 2011.

On the other hand, the tightening financing conditions raised interest rates and bond market yields, thus increasing the cost of government financing. The strong rise in yields on euro area government bonds was a consequence of the restrictive monetary policy of the leading central banks. Considering that it was in September that the ECB raised the benchmark interest rates the last time, the pressure on further yield growth is limited.

With the accession to the euro area, the Republic of Croatia became an EGB (*European Government Bonds*) issuer. Even after the euro adoption was formally confirmed in the summer of 2022, Eurobond spreads recorded a typical increase in convergence to benchmark bond yields, so the act of adopting the euro itself had no significant effect on trends. The space for further narrowing of spreads has been constricted.

1. Macroeconomic environment (continued)

The government decided to actively involve private individuals in the primary capital market by participating in the issue of government bonds. The strong interest of the private individual sector, which viewed this investment as a chance to activate their savings in an environment of prevailingly low interest rates on deposits, resulted in the successful issue of EUR 1.85 billion of two-year government bonds, of which EUR 514 million were allocated to institutional investors. In the last quarter of 2023, treasury bills too were offered to retail investors. Out of a total of EUR 1.13 billion of bills subscribed, private individuals subscribed and paid for 364-day treasury bills worth EUR 1 billion. During 2023, another EUR 1.25 billion of bonds maturing in 2033 were issued on the domestic market and EUR 1.5 billion of Eurobonds on the European capital market.

- Monetary Framework and Banking Business

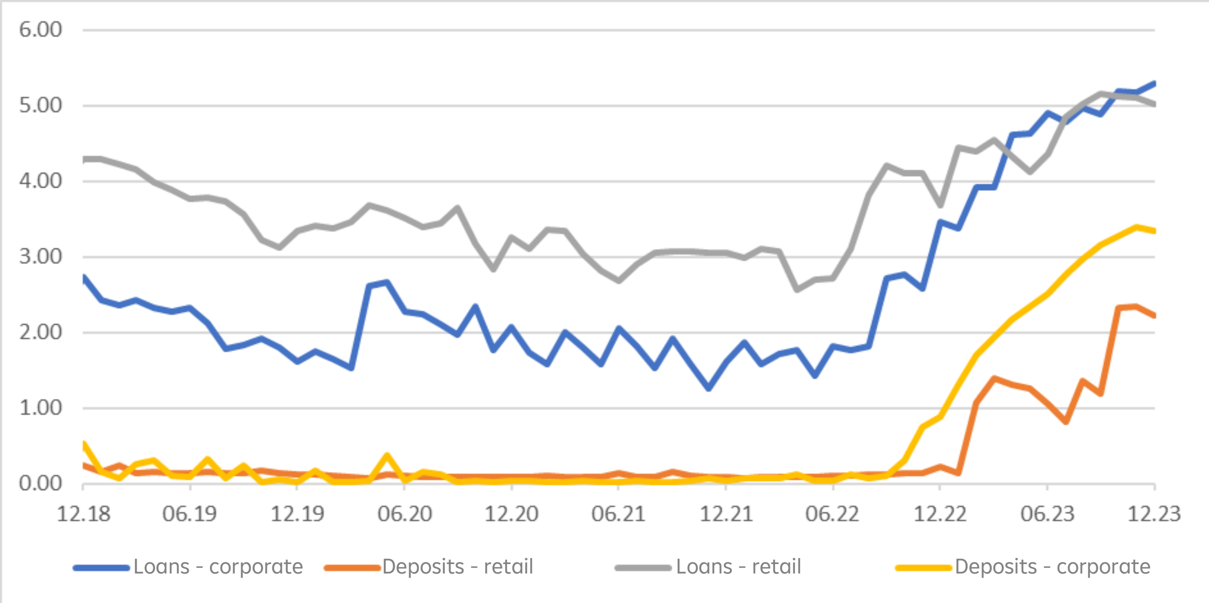
Croatia's accession to the euro area at the turn of 2023 came amidst the cycle of raising key European Central Bank interest rates. In the period from July 2022 until end September 2023, the ECB raised key interest rates by 450 basis points, the strongest cycle of key rate increases in the history of the euro area. Thus the interest rate on the overnight deposit reached 4.00 per cent, the main refinancing operations rate was 4.50 per cent, and the rate on the marginal lending facility was 4.75 per cent. From September until the end of the year, the focus was on maintaining the benchmark rates at the reached levels for a longer period of time until the price growth rate in the euro area stabilizes at the target level.

After the end of the cycle of raising key interest rates, the focus of the ECB shifted to balance sheet policy, and reducing excess liquidity in the system through quantitative tightening (QT) measures. The outcome will determine the long-term size and composition of the ECB's balance sheet with implications for money markets and (government) bond markets. In the previous year, the monetary policy normalization by removing elements of unconventional monetary policy was implemented gradually. The absence of disturbances allowed the ECB not to resort to the implementation of the controversial Transmission Protection Instrument. The asset purchase program (APP) portfolio decreased at a moderate pace of round EUR 25 billion per month, and the Eurosystem did not reinvest the principal payments from maturing securities. On the other hand, the reinvestment of the principal of maturing securities purchased as part of the pandemic emergency purchase programme (PEPP) will continue by the end of 2024. The gradual reduction of the portfolio is managed so as to avoid an adverse impact on monetary policy.
Excess liquidity within the banking sector of the euro area, which has no other purpose than voluntary depositing in the national central banks of the euro area, hovered at a level above EUR 3,500 billion in the past year, but was not evenly distributed within the monetary union.

The monetary policy transmission into financing conditions was limited by local specificities. The transmission of key ECB interest rates to interest rates in the euro area was not evenly distributed among the member states. It reflects structural features and specific market characteristics. In Croatia, although the transmission was more intense in non-financial companies than in the private individual sector, overall, the transmission was relatively weak compared to other members of the euro area. Some of the key factors that mitigate the intensity of the transmission in Croatia in comparison to other euro area members include decreased risk premium following the accession to the euro area, a stable and growing deposit base, a relatively low loan-to-deposit ratio, a small share of variable interest rates on lending, and a significant liquidity surplus, which increased even further following the entry to the eurozone. Also, even the ECB measures aimed at managing excess liquidity through balance sheet reduction had no effect on the local market, because Croatia was not part of the euro area in the period of quantitative easing, and consequently the country did not participate in the placement of securities at the ECB.
The legal restriction on the maximum allowed interest rate on loans with a variable rate also acts as a limiting factor for the increase of interest rates on loans to households.

1. Macroeconomic environment (continued)

Interest rates of Croatian banks, new contracts, in %



Sources: CNB, Raiffeisen Research

Since the tightening of the monetary policy started, the difference between interest rates on deposits and interest rates on loans in Croatia has increased, as interest rates on deposits grew at a slower pace than interest rates on loans. The more modest reaction of interest rates on deposits may also be attributed to their weaker elasticity to interest rate fluctuations. In addition to a generous deposit base, the still relatively weak inclination of deposit holders towards investments in alternative financial instruments further curbs the growth of interest rates on bank deposits. It was only the public debt issues in March and November, which were aimed at retail investors, that encouraged banks to offer more attractive interest rates on bank deposits. As with loans, interest rates on deposits grew at a more intense pace in non-financial companies, where regulations governing maximum interest rates on loans are less restrictive than is the case in household sector.

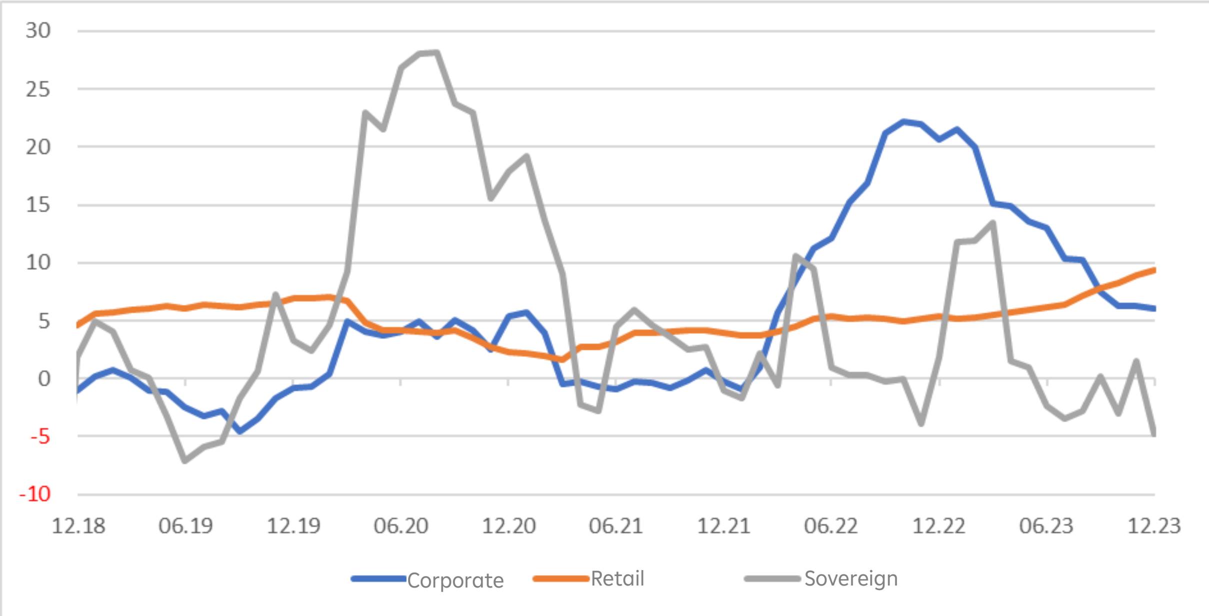
Less favorable financing conditions, which reflect the rising interest rates and the declining demand, resulted in subdued corporate lending, while retail loans continued to grow at a relatively strong pace. In addition to rising interest rates, the adverse effect on the demand for corporate loans from banks came from alternative source of funding investments, whereas the demand of corporates for inventory and working capital financing was mitigated by more stable raw material prices.

The growth of retail loans was driven by the demand for mortgages, most of which were approved as part of the new round of government subsidies for housing loans, In addition, the increase in real estate market prices caused an increase in the amount of money required to buy apartments, and thus indirectly spurred demand for housing loans. After the end of the lasts round of government subsidies for housing loans, the households' demand for mortgages began to decline, but the realization of loans originated during the year contributed to extensive lending growth until the very end of the year.

During the year, the growth of non-purpose cash loans accelerated. With high inflation, the demand for consumer loans increased due to the rise in prices of durable consumer goods. Also, the realized growth in real wages and employment figures boosts consumer confidence, which ultimately outweighs the adverse impact of rising interest rates on consumer inclination to borrow.

1. Macroeconomic environment (continued)

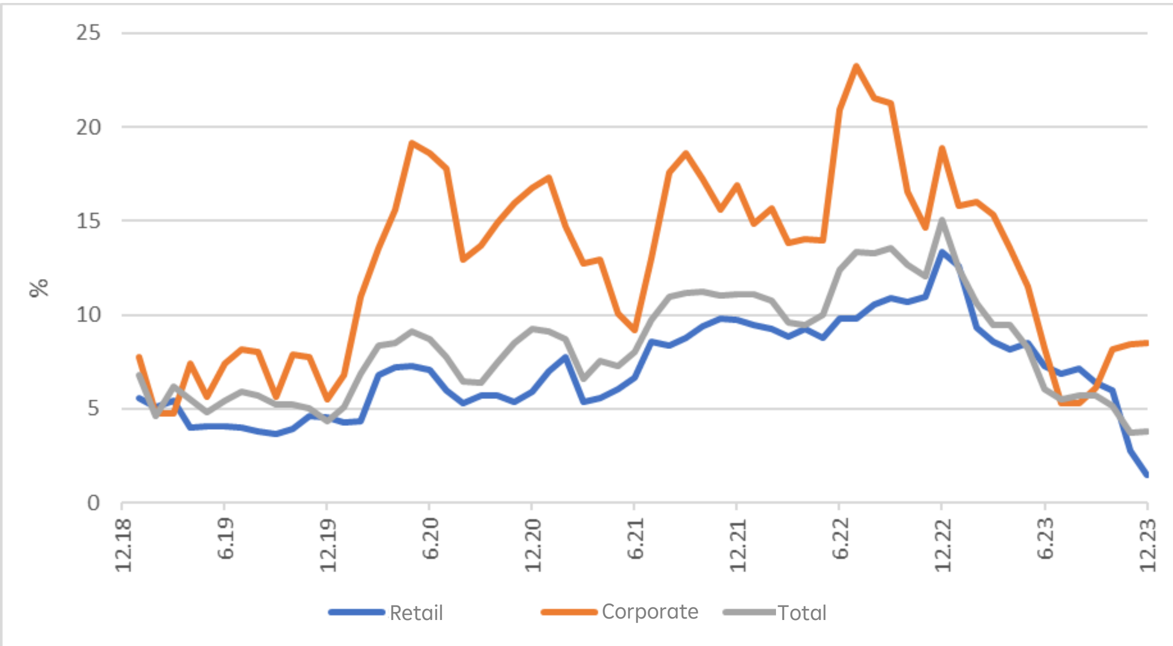
Annual loan growth rate, in %



Sources: CNB, Raiffeisen Research

Government borrowing from banks had no effect on the supply of loans to the private sector. The offer of loans on the Croatian financial market in 2023 was generous owing to a significant surplus liquidity in the system. At the start of the year, excess liquidity increased further following the release of bank reserve requirements. However, the returns that banks began to realize on surplus liquidity through deposits at the central bank following the joining to the euro area eased the pressure on banks to place excess liquidity. So the upwards trend in market interest rates spilled more quickly to the loans supply, and along with the slower growth of interest rates on deposits, had a positive effect on interest margins and total earnings of banks.

Deposits, annual change, balance-based



Sources: CNB, Raiffeisen Research

1. Macroeconomic environment (continued)

The stable growth of client deposits enabled generous financing of banks from primary sources of funding. Therefore, the share of secondary funding sources became negligible for the formation of capital price on the domestic financial market. Demand for additional funding sources was sonly supported by the issues of debt instruments meeting MREL requirements by banks that are obliged to meet the criteria.

With rising central bank key interest rates, the borrowers' awareness of interest rate risk has also increased. The demand for bank loans with longer maturities and fixed interest rates has also increased. The growth in long-term loans with fixed interest rates (in the initial repayment period or until maturity) resulted in the widening gap in the maturity structure of bank balance sheets due to the slow growth of the average maturity on the funding side, where demand deposits continue to prevail.

The banking system is significantly exposed to the country risk of the Republic of Croatia. Factors which increase country risk level in bank assets include indirect or direct government borrowing on the domestic financial market. Other factors of government risk exposure are excess liquidity that banks keep in accounts at the CNB and investment in debt instruments of the Republic of Croatia, direct government borrowing from banks and other financial institutions, and government guarantees for loans of public or private companies.

Downwards trend in the share of non-performing loans in total loans prevailed in the past year too. In the household sector, the employment rate rose, as dis the average salary. Although the increased interest rates on loans adversely affected the borrowers' creditworthiness, the faster growth of income of consumers and the sales growth of manufacturers helped ease the debt repayment burden.

1. Macroeconomic environment (continued)

Summary of macroeconomic and financial indicators for the period from 2019 to 2023

	2023	2022	2021	2020	2019
GDP and Production					
Gross Domestic Product, % (constant prices)	2.8	6.3	13.8	-8.6	3.4
GDP at current prices (EUR millions)	75,860	67,993	58,408	50,569	54,784
GDP per capita at current prices (EUR)	19,655	17,630	14,789	12,495	13,813
Retail trade, % real annual changes	3.7	2.1	12.1	-5.5	3.6
Industrial production, % annual changes	-0.9	1.6	6.7	-3.4	0.5
Prices, Employment and Budget					
Consumer Prices, %, end of period	4.6	12.7	5.5	-0.7	1.3
%, average	8.0	10.8	2.6	0.1	0.8
Producer Prices, %, end of period	0.7	19.9	19.7	-1.2	1.5
%, average	6.3	26.4	9.7	-2.0	0.8
Unemployment rate (official rate, avg)	6.2	6.7	8.0	8.9	7.7
Average net wage, in EUR avg	1,145	1,015	946	898	857
Consolidated general government deficit, % GDP[1]	-0.5	0.1	-2.5	-7.3	0.2
Public debt, EUR billion [1]	47.2	46.3	45.6	43.9	38.9
Public debt, % of GDP [1]	62.2	68.2	78.1	86.8	70.9
Balance of Payment and Debt					
Goods and Services Exports, EUR million	43,574	40,309	29,117	20,955	28,194
% change	8.1	38.4	38.9	-25.7	8.1
Goods and Services Imports, EUR million	47,059	44,111	30,699	24,505	28,399
% change	6.7	43.7	25.3	-13.7	6.2
Current Account Balance, % of GDP	-0.3	-1.6	1.8	-0.5	2.8
Foreign direct investment, EUR million	2,900	3,489	3,902	1,111	3,508
Tourism – night stays, % change	2.7	28.3	72.1	-55.3	1.8
External debt, EUR billion	58.9	49.6	47.2	41.3	40.6
External debt, as % of GDP	77.6	74.0	81.1	81.8	74.1
External debt, as % export of goods and services	135.2	122.9	162.2	197.0	144.0
Financial Data					
Exchange rate, eop, EUR / USD	1.12	1.07	1.14	1.22	1.12
avg, EUR / USD	1.09	1.05	1.18	1.14	1.12
Exchange rate, eop, EUR / CHF	0.99	7.53	7.52	7.54	7.44
avg, EUR / CHF	0.99	7.53	7.52	7.53	7.41
Interest rates, end of period					
Main refinancing operations 1	4.25	2.50	0.00	0.00	0.00
Continuously available depositing option 1	3.75	2.00	-0.50	-0.50	-0.50
Euribor O/N	3.79	1.49	-0.51	-0.50	-0.50
Euribor 1m	3.75	1.88	-0.58	-0.55	-0.40
Euribor 3m	3.85	2.13	-0.57	-0.55	-0.40
Euribor 6m	3.90	2.69	-0.55	-0.53	-0.30
Euribor 12m	3.90	3.29	-0.50	-0.50	-0.20
Interest rate on treasury bills 12m, %, avg	3.10	0.14	0.02	0.06	0.10

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

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 2023 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 83 thousand in legal entities and 343 thousand in retail.

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

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, inflationary pressures weakened with a drop in prices on the energy market. However, geopolitical risks remained elevated, and towards the end of the year they further expanded.

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 1.722 employees. In the previous year, there was an increase in the number of employees due to the merger of a subsidiary company for consulting services. The number of employees tends to decrease due to the change in the operational business model through the digitalization of business processes. 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 2023.

3. Financial result of the Bank

Total assets at the end of 2023 amount to EUR 6,600 million (2022: EUR 6,354 million) for the Bank stand alone. Compared to the previous period, an increase of EUR 246 million (2022: EUR 838 million) was realized. Customer loans realized an increase of EUR 251 million (2022: EUR 368 million), while placements to liquid types of assets remained on approximately the same level. The loan increase was financed from the liquidity that was enlarged by the issue of debt securities in the amount of EUR 300 million. The share of liquid assets and investments in financial assets in total assets slightly decreased to 46 percent, and the share of loans to clients increased to 51 percent (2022: 49 percent). Total loans to clients at the end of year amounted to EUR 3,343 million (2022: EUR 3,092 million) and at the annual level increased by 8 percent (2022: 13 percent).
Demand for non-purpose cash loans increased during the year under the influence of rising household incomes and weakening inflationary pressures. The dynamics of increase in the incomes of employees exceeded the growth of consumer prices, which resulted in a real increase in disposable income for consumption.

3. Financial result of the Bank (continued)

The transfer of increase in market interest rates to new loans is slowed by the rules for determining the highest interest rates for consumers, which reduces the level of uncertainty among consumers and positively affects the demand for loans. Therefore, the demand for loans among households strengthened during the year.

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. The regulations limited the interest rate on loans, which had a positive effect on the demand for housing loans, while rising real estate prices had a negative effect on clients' creditworthiness. In conditions of limited interest rates on housing loans in relation to the reached inflation levels, the demand for housing loans remained at a high level.

The process of increasing the key interest rates of the European Central Bank with the aim of stopping inflationary pressures, started in the middle of 2022 and was completed in September 2023. The growth of interest rates was transmitted from financial markets to banking loans and it increased consumer awareness of interest rate risks. The demand for loans with a contracted fixed interest rate has increased in order to protect against the growth of reference interest rates during loan repayment. 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 2019 to 2023

	Bank 2023 EUR millions	Bank 2022 EUR millions	Bank 2021 EUR millions	Bank 2020 EUR millions	Bank 2019 EUR millions
From the Balance sheet 31 December					
Total assets	6,600	6,354	5,529	4,931	4,579
Shareholders' equity	639	691	684	630	629
Customer accounts	5,065	5,036	4,366	3,758	3,444
Loans to customers	3,343	3,092	2,730	2,516	2,480
From Income statement and other comprehensive income for the year ended 31 December					
Operating income	248	204	179	169	192
Operating expenses and depreciation	134	143	106	109	113
Profit before tax	118	44	72	22	59
Net profit for the year	96	37	60	17	59

Total customer deposits increased by EUR 29 million (2022: EUR 670 million) in the current year. Deposits from corporate and other non-credit entities recorded one percent increase (2022: 17 percent), while zero percent (2022: 15 percent) increase was recorded in retail segment. Private individual deposits amounted to EUR 2,633 million (2022: EUR 2,639 million), accounting for 44 percent (2022: 47 percent) of total liabilities of the Bank at the end of year.
Entry into the euro area resulted in a one-time increase in deposits before the beginning of 2023 in order to convert cash into the new official currency. The outflow of cash in euros from banks in the early part of last year resulted in a decrease in household deposits, and growth continued from the 2nd quarter onwards. In addition, government debt issues aimed at small investors in March (bonds) and November (treasury bills) enabled investors to earn tax-free returns, which diverted part of the deposits from banks to finance the public debt. The growth of the yield on alternative types of investments and the offer of a significant difference in the yield for time deposits with banks compared to the yield on *a'vista* deposits resulted in a change in the term structure of deposits. Among households, the share of term deposits increased to 24 percent (2022: 20 percent) of total deposits, and among companies and other non-credit companies to 17 percent (2022: 5 percent).

3. Financial result of the Bank (continued)

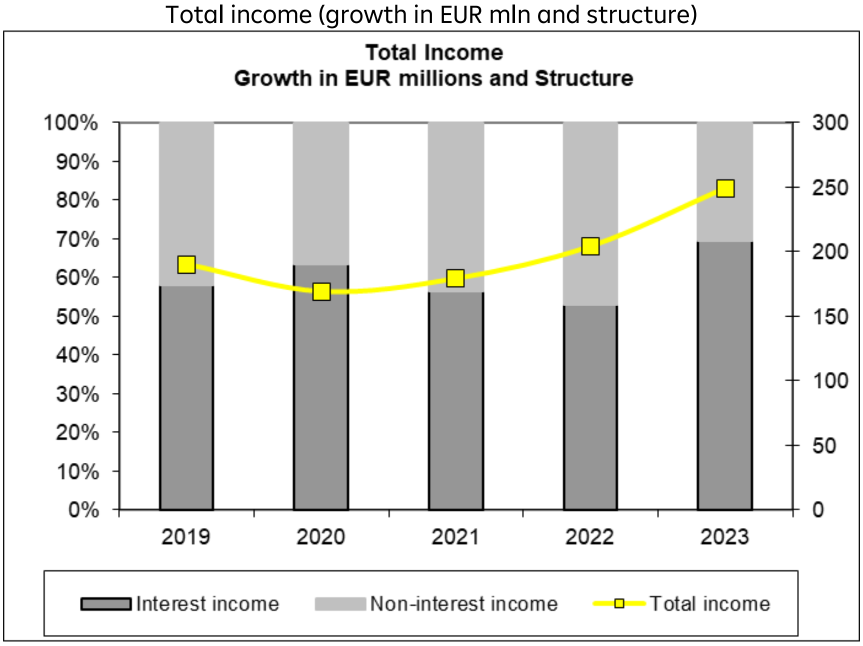
Share capital (T1) of EUR 639 million (2022: EUR 691 million) decreased compared to the beginning of year by 8 percent (2022: growth 1 percent). In the past year, the bank paid a dividend of EUR 120 million to its owners from retained earnings. At the end of year, the Bank's total capital adequacy ratio was 19.93 percent (2022: 22.26 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 300 million in June, thus fulfilling the transitional requirement for next year. This further strengthened the Bank's resilience to systemic risks and, at the same time, provided sources for financing projects in the sphere of energy efficiency and renewable energy sources, healthcare, education, basic infrastructure and affordable housing.

The Bank's business result in 2023 significantly exceeded the results from previous years. Operating income increased by 22 percent (2022: 14 percent lower) and amounted to EUR 248 million (2022: EUR 204 million), and the realized profit after taxation amounted to EUR 96 million (2022: EUR 37 million).

The main contributor in the increase in operating income was achieved on the interest income from the central bank in the amount of EUR 49 million, which was not there in year 2022. Before entering the euro area, banks did not earn a return on mandatory reserves or overnight deposits with the central bank. After entering the euro area, the mandatory reserve funds were released, which increased excess liquidity at banks. The Bank deposits its excess liquidity with the central bank with a yield equal to the deposit interest rate of the European Central Bank (ECB). At the beginning of 2023, the ECB's deposit interest rate was 2 percent. By September, it had increased six times to stabilize at 4 percent until the end of year. Excluding the contribution of interest income from the central bank, net interest income comparable to previous periods amounted to EUR 123 million (2022: EUR 108 million) and was higher by EUR 15 million (2022: EUR 7 million). In addition to the growth of the interest base, the increase in net interest income was also influenced by the rising tendency in market interest rates, which was transferred more quickly to bank loans than to deposits.

Realized net income from fees and commissions increased in 2023 by EUR 1 million (2022 growth of EUR 7 million). Income from fees and commissions mainly refers to fees in payment transactions and card operations. Net profit from trading in financial instruments and other income is lower by EUR 21 million on an annual basis (in 2022, higher by EUR 13 million). The decrease is a consequence of the absence of currency arbitrage related to the entry into the euro area.

Total income (growth in EUR mln and structure)



3. Financial result of the Bank (continued)

Total operating expenses amount to EUR 134 million (2022: EUR 143 million) and are lower by 6 percent on an annual basis. In the past year, the costs of deposit insurance were lower, as were the contributions to the resolution fund. If we exclude a one-time cost of EUR 12 million in the base period for the impairment of the investment in a subsidiary company, comparable operating costs increased by EUR 3 million on an annual basis, which is in line with the realized inflation rate.

A significant impact on risk-based losses was incurred in court cases. The majority of court cases against the bank refer to individual lawsuits initiated by consumers to whom the Bank granted loans indexed to the Swiss franc exchange rate in the period from 2004 to 2008. In 2023, total costs based on the risk of litigation amounted to EUR 9 million (2022: EUR 6 million). Impairments in other business segments refer to identified and unidentified loan losses. The achieved growth of the economy 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. Realized growth in real wages increases the average creditworthiness of borrowers from the consumers segment. In the corporate segment, procurement prices have been reduced, which makes it easier for some borrowers to meet their obligations under received loans.

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 reduce the errors in data processing on the one hand, and labor costs on the other.

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.

5. Research and development activities

In 2023, 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 2023.

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 2023 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.

As of December 2023, Raiffeisen Consulting d.o.o. 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 2023

In 2023, the Company achieved the goals defined in the business plan, which resulted in a net profit of EUR 8,123 thousand (2022: EUR 6,365 thousand).
In the income structure, the largest item of income is revenues from the management of the Funds, which account for 97% (2022: 99%) of total revenues, of which 72% (2022: 73%) are revenues from the management of mandatory funds, and 28% (2022: 27%) are revenues from the management of voluntary funds.
The amount of the fee for the management of mandatory pension funds in 2023 was 0.27% (2022: 0.27%) 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 of Funds.
Of the total expenditure achieved in 2023, 61% (2022: 58%) relates to expenditures from the management of the Funds, and 33% (2022: 37%) to operating expenses.
The Company's assets as at 31 December 2023 amounted to EUR 33,929 thousand (2022: EUR 31,728 thousand). The largest asset item is financial assets relating to funds and investments in debt securities.
The capital of the Company as at 31 December 2023 amounted to EUR 19,038 thousand (2022: EUR 19,038 thousand).

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

Fund management is the responsibility of the Company's Management and Asset Management. Supervision of investments, as well as analyses related to risk calculation and the success of fund management is carried out by Risk Management. All risk management procedures that apply to the Funds are also implemented in relation to the Company's assets when applicable. The most significant types of risks to which the Company is exposed are credit risk, liquidity risk and market risk. Market risk includes exchange rate, interest and price risk.

Credit risk

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

The Company's assets are almost exclusively denominated in euros, and therefore the Company's income and assets are not exposed to the influence of exchange rate changes.
The Company's exposure to exchange rate risk is related to its exposure to funds in foreign exchange accounts and other receivables denominated in currency different then 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.

7. Bank subsidiaries (continued)

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 50 *Risk Management*.

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 2023

During 2023, the Company adjusted its business operations in accordance with the economic situation (local and global) and the situation on the capital market, which recorded an increase in interest rates and yields, and the main focus was on mitigating the risk of inflation and the effects of inflation on the portfolio of mandatory pension insurance users.
Since the Company (RMOD) is obliged, in accordance with the provisions of the Law, to harmonize the pensions of beneficiaries with the official inflation index of the Republic of Croatia twice a year, the Company did the same twice in 2023. The first time on April 1st according to the inflation index of 6.60% and the second time on October 1st according to the inflation index of 3.10%.
In December 2023, the Company had 11,545 pension contracts paid out, and total assets at the end of 2023 amounted to EUR 249,905 thousand (2022: EUR 227,954.29 thousand). The largest item of assets is financial assets related to investments in debt securities.

Future development

The Company expects to continue its successful business operation, investing assets to cover insurance contracts liabilities with the aim of preserving the sufficiency of insurance contracts liabilities, 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.

7. Bank subsidiaries (continued)

Risk management (continued)

The company expects reduced, but still pronounced impact of inflation throughout the year 2024 (2.6%-3.1% projections ECB, RBI), but also its successful overcoming of it through investments in asset classes and financial instruments for protection against price changes, volatility and inflation, all for the purpose of investing assets to cover insurance contract liabilities, 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.

Market risk

Market risk includes three types of risks:
- interest rate risk - the risk that the value of financial instruments will change due to changes in market interest rates
- inflation risk – the risk that the value of insurance contract liabilities will be indexed due to an increase in inflation
- 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
- currency risk - considering that all assets in kuna have been converted into euros, the mentioned risk is no longer recognized, except in the case of taking positions other than euros.

Interest rate risk and inflation 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.
In accordance with the application of IFRS 17 "Insurance Contracts" (IFRS 17), insurance contract liabilities are discounted using a market interest rate curve based on the yields of Croatian government bonds. It follows that changes in the value of investments that can be linked to the interest rate, despite the use of hedging instruments (derivatives for protection against interest rate risk: futures and interest rate swaps), still carry the risk of the range of interest rate movements in Croatia, on which the movement of the Company's insurance liabilities depends on the liabilities side. To mitigate the risk of inflation, the Company protects itself with instruments such as inflation swaps and inflation bonds. As with the interest rate risk, there is also a range risk because all the instruments are linked to the EU zone index (CPTFEMU), while the liabilities are adjusted according to the consumer price index of the Republic of Croatia (CPI).

Exchange rate risk

Due to the euro conversion, the Company is no longer exposed to the risk of exchange rate changes through transactions in euro currency. Currently, the Company does not have a single investment in foreign currency.

Credit risk

Credit risk is the risk that the issuer of a financial instrument which is held in the assets covering insurance contract liabilities 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. Exposure to credit risk results from investments in fixed-income instruments, deposits with financial institutions, derivative instruments, etc. Currently, almost all of the Company's positions in such instruments in all portfolios are assets whose issuers have an investment rating of BBB+ or better. In accordance with the application of the IFRS9 standard, the Company calculates and applies impairment for all financial instruments that are measured at amortized cost. The company continuously analyzes and checks the credit quality of individual issuers in accordance with current regulations.

7. Bank subsidiaries (continued)

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.
Considering that the Company mostly invests in highly liquid assets (more than 75% of assets marketable in 6 days), and on the liabilities side are insurance obligations, i.e. obligations for pension payments with planned multi-year outflows that cannot be withdrawn earlier (unlike deposits in banks), liquidity risk has no significant influence on the company's operations.

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 50 *Risk Management*.

Raiffeisen Leasing d.o.o.

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

Business in 2023

2023 was profitable year for the Company, with achieved profit after tax in amount of EUR 4.5 million (2022: EUR 2.4 million) and total assets in balance sheet of EUR 222.11 million (2022: EUR 188.95 million).
Interest income was EUR 8.3 million (2022: EUR 4.9 million), while interest expense was EUR 4.6 million (2022: EUR 1.2 million). Interest income in 2023 has increased by 41.36 %, while interest expense has also increased by 74.64 %. compared to 2022. Net fee and commission expense were EUR 46 thousand (2022: EUR 26 thousand).
The Company's profit after tax amounted to EUR 4.5 million (2022: EUR 2.37 million). In relation to capital and reserves, net profit amounted to 14.03% (2022: profit in relation to capital and reserves 8.61%). The Company's results depend 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. Geopolitical uncertainties, primarily the war in Ukraine 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.

7. Bank subsidiaries (continued)

Business in 2023 (continued)

Still solid growth rates of the economy in the 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 31.12.2023 amounted to EUR 222.11 million (2022: EUR 189.4 million). The finance lease portfolio, net of impairment, amounted to EUR 174 million (2022: EUR 147 million), while the net book value of fixed assets in operating lease amounted to EUR 20.4 million (2022: EUR 18.1 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 natural persons, mostly domestic residents.

In financing structure of business, besides own equity in amount of EUR 32 million (2022: EUR 27.6 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 2023, these loans amounted to EUR 86.1 million, while total amount of loans from domestic and foreign commercial and development banks amounted to EUR 95.6 million.
The amount of own funds of the Company is sufficient regarding its risk profile and is also in compliance with minimum regulatory capital requirements.

Future development

As the digitization and automation trend in the financial services sector continues, this will require adaptation of the Company's operations in the future. Automation of processes and innovations related to communication channels and to the way services are sold will result in reducing the need for personnel for routine sales and administrative positions. In addition to activities aiming at operating income growth, measures have been implemented in business development to improve work productivity and safety standards, technological upgrades have been introduced, and the management of business processes has been developed. The Company has increasingly used professional, organizational and technological resources in order to raise the quality of service and reduce unit costs per transaction. The mentioned changes will further reduce the operational risks of the Company.

Changes in the regulations related to the operations of financial institutions represent the development priority of the Company. Investments relate mostly to improving the functionality of the sales and support system. Furthermore, business processes and support have been developed that are related to the alignment of the offer with the changes in market conditions as well as improvements for the purpose of adjusting the business processes with the requirements of the ultimate owner (RBI). In future operations, the Company expects moderate growth in the demand for leasing financing, with the entry of new competitors as regards the field of offering services to clients. Therefore, development activities have been focused on increasing the quality and innovation in the service offer, where we expect the most competition in the coming period.

The Company's future strategy is primarily based on the introduction of innovative sales channels, both standard and new types of services sold on digital platforms. The Company thus strives to meet the demands of clients, but with constant concern for maintaining a high level of service quality and security of client 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)

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 2023, 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

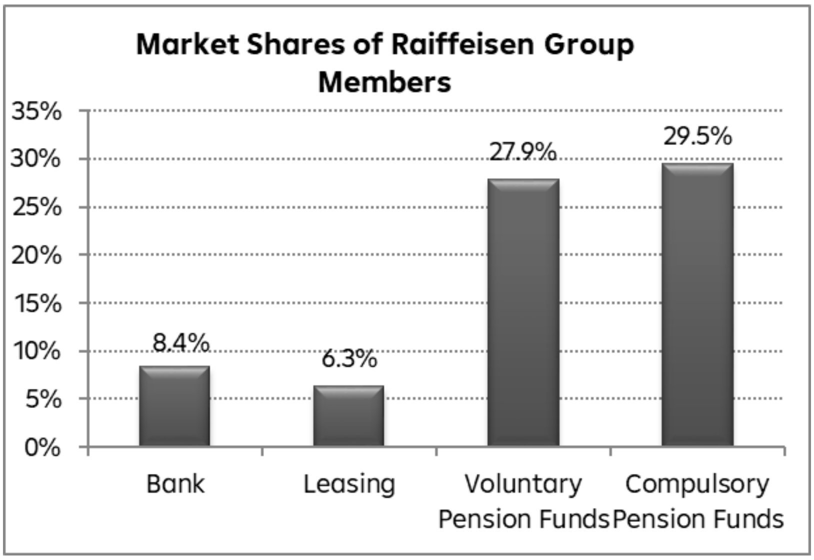
Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.

Detailed information and overview of risk management is presented in Note 50 *Risk Management*.

8. Financial result of the Group

The Group's total assets at 31 December 2023 amounted to EUR 7,001 million (2022: EUR 6,677 million), having increased by 5 percent (2022: 13 percent) year on year. In the asset structure, loans to customers increased by EUR 297 million (2022: EUR 306 million), while liquid assets and investments in financial assets other than loans have increased by additional EUR 34 million (2022: EUR 439 million).
In the graphical presentation of the market share of Raiffeisen Group members, the Pension Insurance Company d.d. (MOD) is omitted because there is only one other company operating on the market.

Market share of Raiffeisen Group members



Sources: CNB; CFSSA; Raiffeisen Research

At 31 December 2023, assets under management in the three mandatory pension funds amounted to EUR 5,972 million (2022: EUR 5,363 million), with an additional EUR 352 million (2022: EUR 298 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 (2022: 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: 635 thousand members (2022: 624 thousand) in mandatory pension funds and 108 thousand members (2022: 103 thousand) in voluntary pension funds. The 12 percent annual growth (2022: 1 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.

8. Financial result of the Group (continued)

Raiffeisen group financial highlights for the period from 2019 to 2023

	Group 2023 EUR millions	Group 2022 EUR millions	Group 2021 EUR millions	Group 2020 EUR millions	Group 2019 EUR millions
From Balance sheet at 31 December					
Total assets	7,001	6,677	5,924	5,324	4,951
Shareholders' equity	686	733	727	664	665
Customer deposits	5,028	4,993	4,462	3,866	3,569
Loans to customers	3,476	3,179	2,881	2,685	2,669
From Income statement and other comprehensive income for the year ended 31 December					
Operating income	287	273	277	292	276
Operating expenses and depreciation	160	203	195	229	194
Profit before tax	130	54	81	24	59
Net profit for the year	105	45	67	17	57

The share of customer deposits in the Group's total liabilities is 80 percent (2022: 84 percent). The other funding sources are the borrowings and debt securities issued in the Bank, and the borrowings of Raiffeisen Leasing. On 31 December 2023, borrowings amounted to EUR 227 million (2022: EUR 184 million) and deposits from banks add EUR 31 million (2022: EUR 108 million). Total customer deposits amounted to EUR 5,028 million (2022: EUR 4,993 million). The share of private individual deposits in total liabilities was 42 percent (2022: 44 percent). On 31 December 2023, the Group's equity amounted to EUR 686 million (2022: EUR 733 million), with capital adequacy ratio of 20.19 percent (2022: 22.60 percent).

The Group's profit after taxation in 2023 amounts to EUR 105 million (2022: EUR 45 million). Three companies in the local Group achieved a positive result; in addition to the bank, there was also a pension fund management company, pension insurance company and leasing. The growth of market interest rates increased the return on financial assets and enabled the pension insurance company to achieve a positive operating result despite the increase in consumer prices by which it adjusts obligations to pension beneficiaries.

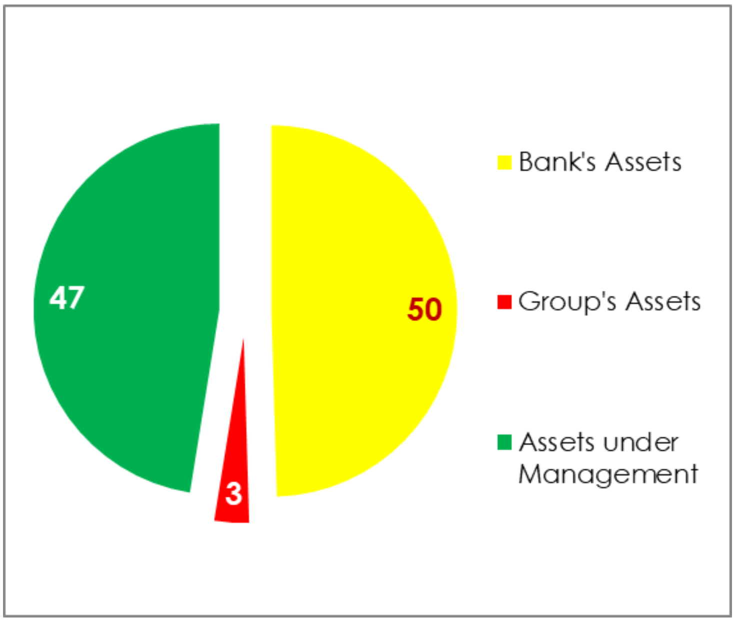
The Group's net interest income amounted to EUR 181 million (2022: EUR 117 million), which is 55 percent (2022: 5 percent) more than the year before. At group level, the positive impact on net interest income was achieved only at the Bank, while there were no changes at the other members. Net fee and commission income amounted to EUR 73 million (2022: EUR 68 million) and have increased by 7 percent compared to the year before. The increase was realized at subordinated group members. Fee income is the primary income of the Group member which manage the assets of pension funds. With the increase in the value of assets under management, the basis for calculating the fee also increases. The amount of the management fee for mandatory pension funds is determined by the regulator.

Other non-interest income amounted to EUR 33 million (2022: EUR 88 million), down by 62 percent compared to previous period (2022: 17 percent). Income from trading and valuation of financial assets generated a gain of EUR 7 million (2022: EUR 20 million).

8. Financial result of the Group (continued)

Other operating income gained EUR 20 million (2022: EUR 70 million), and the largest portion in the amount of EUR 17 million relates to income generated by companies Raiffeisen Leasing (EUR 10 million) and Raiffeisen mirovinsko osiguravajuće društvo d.d. (EUR 7 million).

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



The total operating income at local Group was EUR 287 million (2022: EUR 273 million). On an annual level, they increased by EUR 14 million (2022: decrease by EUR 32 million). The Group's operating expenses amounted to EUR 160 million (2022: EUR 203 million), of which EUR 8 million relate to expenses for insurance contract liabilities and insurance service expenses which is significant decrease from 2022 when these expenses amounted to EUR 42 million. This decline was due to the application of the new standard IFRS 17 Insurance Contracts. Operating costs were reduced by EUR 43 million (2022: increase by EUR 8 million) compared to the previous year. In relation to the Group's total revenues, operating expenses amount to 56 percent (2022: 74 percent).

The Group had positive results of EUR 3 million (2022: negative result of EUR 16 million) of impairment losses, which have a positive contribution by EUR 19 million (2022: negative contribution by EUR 15 million) to the profit before tax 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 EUR 105 million (2022: EUR 45 million). On annual basis the net result increased by EUR 60 million.

9. 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 2023, 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.
Detailed information and overview of risk management is presented in Note 50 *Risk Management*.

9. 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 50 *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 EUR 6,183 million (2022: EUR 5,967 million) in assets and EUR 1,616 million (2022: EUR 1,338 million) in off-balance sheet items. At the Group level, credit risk exposure amounted to EUR 6,550 million (2022: EUR 6,250 million) in assets and EUR 1,648 million (2022: EUR 1,371 million) in off-balance sheet items.
At 31 December 2023, the Bank's total non-performing loans amounted to EUR 129 million (2022: EUR 135 million) out of a total exposure of EUR 7,930 million (2022: EUR 7,451 million). Loan loss provisions were formed in the amount of EUR 73 million (2022: EUR 81 million) covering 57 percent (2022: 60 percent) of non-performing loans. At the Group level, non-performing loans totaled EUR 132 million (2022: EUR 139 million) out of a total exposure of EUR 8,331 million (2022: EUR 7,769 million) of total placements. Loan loss provisions were formed in the amount of EUR 75 million (2022: EUR 82 million), covering 57 percent (2022: 59 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 2023, 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 and risk of credit spreads

The financial assets of the Bank and the local Group are generally interest bearing, as are most financial liabilities. Interest risk arises from the different maturity structure of assets and liabilities and from different types of interest rates and their redetermination dates on the assets and liabilities side 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 assessment of interest rate risk exposure is measured from the perspective of earnings and economic value change perspective.
In order to protect itself from interest rate risk, the Bank uses hedge accounting and derivative financial instruments whose variable is the interest rate.

9. Financial instruments and related risks (continued)

Interest rate risk and risk of credit spreads (continued)

The prices of financial instruments that the Bank does not actively trade are subject to the risk of credit spreads arising from the perception of the market liquidity of a certain financial instrument.
The exposure of the Bank and the Group to interest rate risk as of the reporting date is in accordance with the strategy and within the defined limits.

Exchange rate risk

A smaller part of the assets of the Bank and the Group are denominated in foreign currencies. 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.

10. Social responsibility

Sponsorships and donations

In accordance with its policy of sustainability and promoting socially responsible business, in 2023 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. Through donating funds, the bank also supported the most vulnerable groups of society, thus strengthening its social responsibility.

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 2023.
- *AmCham Talents program* - sponsorship of the AmCham Talents program 2023
- *Infobip Shift 2023* - sponsoring a conference consisting of educational and inspiring talk and Q&A sessions held by leading experts from the IT industry.

10. Social responsibility (continued)

Sponsorships and donations (continued)

- *Greencajt Festival* – sponsorship of the first festival that is fully dedicated to sustainable development and topics related to sustainable lifestyle
- *"Future Tense" Conference* – sponsorship of the B2B conference, which is the first and only one in Croatia, 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.
- *Christmas donations* – in accordance with the proposals of its employees, RBA made 7 Christmas donation to the following associations:
    a. Vukovarski leptirići
    b. *Nova budućnost*
    c. *Puž – put u život*
    d. *Hrvatska udruga za školovanje pasa vodiča*
    e. *KAS*
    f. *Udruga za autizam Zagreb*
    g. *Tata je tata*
- *Donation within Infobip Shift 2023* – as part of the activation for visitors of the conference, where Lego bricks were built, funds were donated to the Zadar Autism Association in an amount corresponding to the total number of Lego bricks from the set that was built during the activation.

Welfare of employees

Every year the area of employee welfare includes target activities and so, the following can be highlighted for the year 2023:

- *BeeWell*, the RBA well-being programme was established. The programme includes activities aimed at achieving the psychological and physical well-being of employees. The lectures and workshops available to employees cover various topics (from nutrition, through burnout, sessions related to mindfulness, up to practical advice on treatment of the different generations within a team). The programme includes also organized physical exercise for employees (online and live) as well as the option for employees to use individual psychological assistance. The programme focuses especially on the managers through custom made workshops. The workshops are created to build their knowledge and skills for prevention of stress and burnout in their teams, so that they could support the health and well-being of its employees as efficiently as possible.
- Systematic medical examinations and additional health insurance for all employees; employees are entitled to one systematic medical check-up a year and additional examination and diagnostics related to an indication.
- Co-financing of recreational activities via the MULTISPORT program.
- Continuous investment into the management and working with them on the topics of employee welfare.
- Focus on providing support to new parents through the following benefits:
    - a female employee returning from maternity leave has the right to work 4 hours a day and be paid her full salary for 2 weeks from the end of her maternity leave;
    - paternity leave was introduced in keeping with the Law and additional 5 days of paid leave to fathers.
- Introducing organized corporate volunteering in the areas such as environmental protection, sport initiatives, animal protection, etc. whereby an employee has the right to a day off (up to max 3 days off in a year) on the day of engaging in volunteering activities.

10. Social responsibility (continued)

Welfare of employees (continued)

- Introducing various new employee benefits such as the minimum 26-day annual leave for all employees (in addition to gaining a higher number of days on the basis of specific factors such as the number of children, length of service, etc.), introducing home office allowance, increasing the food allowance amount for employees who do not have the possibility of home office, etc.
- Various education activities in accordance with individual developmental needs of employees.
- Continuing to perform the initiatives through the RBAlity multi-disciplinary team, on the basis of feedback from employees and what is important to them. The RBAlity team initiatives change the bank's culture and have a significant impact on well-being and work-life balance (e.g. enhancements in work methods and tools, defining the standards of professional conduct, etc.)

11. Non-financial information

In 2024, the Bank will issue a separate non-financial statement as at 31 December 2023, 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: https://www.rbinternational.com/en/raiffeisen/sustainability-esg/sustainability-reports.html.

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 ("CFSSA") and the Zagreb Stock Exchange ("ZSE").
During 2023, 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 scope of the implemented EUR 1,000,000,000 Euro Medium Term Note Programme, on 05 June 2023, by a public offering, the Bank issued 300 million euro of non-subordinated and unsecured bonds that are qualified as eligible liabilities, with maturity on 05 June 2027, with the aim of maintaining compliance with the MREL (Minimum Requirement for own funds and Eligible Liabilities) requirement, which was imposed to the Bank by the Single Resolution Board. The bonds are listed on the regulated market of the Luxembourg Stock Exchange.
Furthermore, on 29 November 2023, the Bank made and early repayment of the 63 million euro bonds issued within the scope of the implemented issuance programme of debt financial instruments on 29 November 2022, because these no longer meet the criteria of eligible liabilities, as in keeping with Articles 77(2) and 78a 1(a) of the Regulation (EU) 575/2013.
The Bank has disclosed all documents relevant for the bond issuance and they are available on the website 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 ordinary shares without nominal amount in name of shares, with each share 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 and European Central 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 31.12.2023	
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 2023	
Sabine Zucker	President
Andreas Gschwenter	Deputy President
Peter Jacenko	Member
Herald Kreuzmair	Member
Iryna Arzner	Member
Hrvoje Markovinović	Member
Klaus Buchleitner	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 is 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.

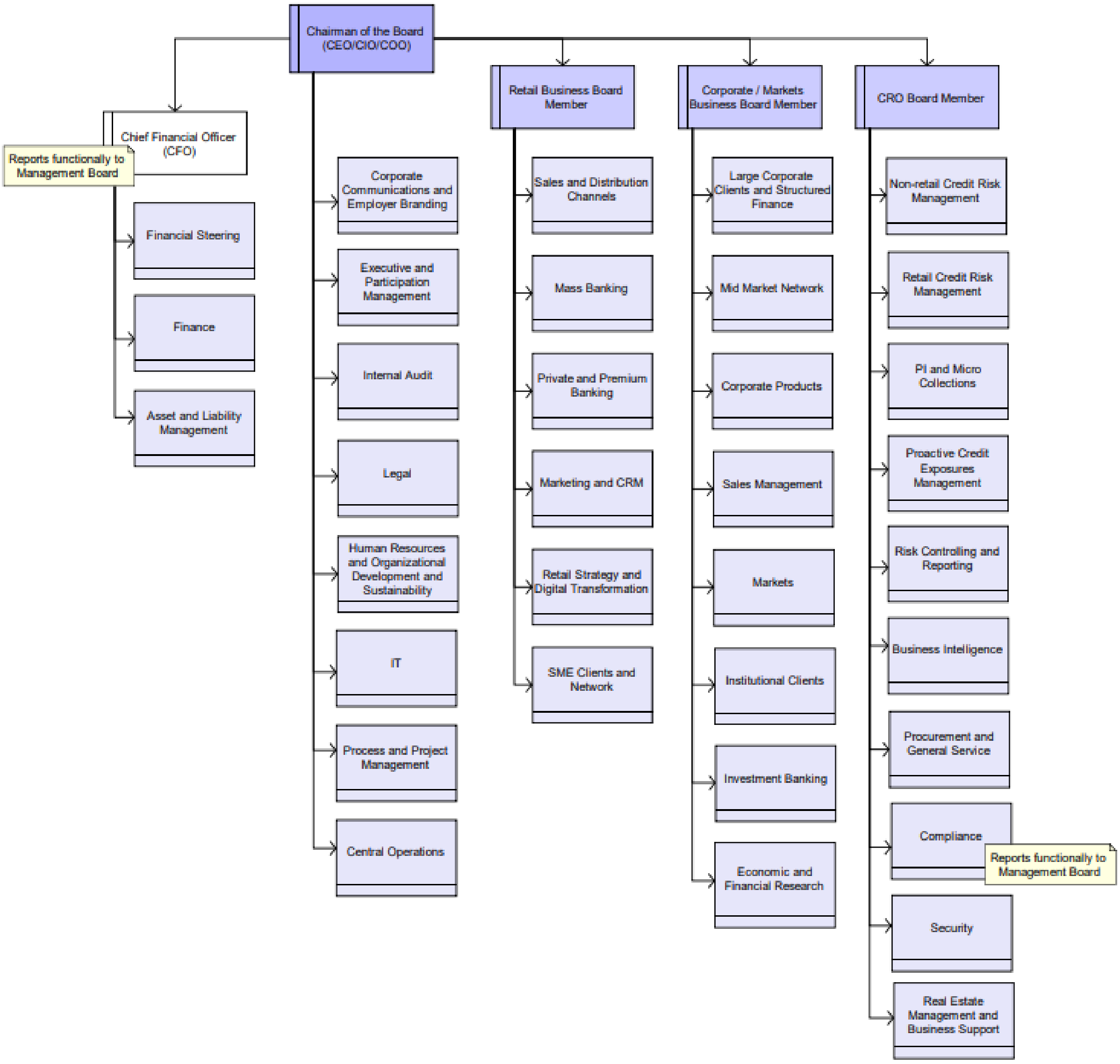
Remuneration policy

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 2023:



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, 82/23). 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 unconsolidated 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 28, 2024 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
Hrvatska
OIB: 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 unconsolidated 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 unconsolidated and consolidated statement of financial position as of 31 December 2023, unconsolidated and consolidated statement of comprehensive income, unconsolidated and consolidated statement of changes in equity and unconsolidated and consolidated statement of cash flows for the year then ended, and notes to the unconsolidated and consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying unconsolidated and consolidated financial statements present fairly, in all material respects, the financial position of the Bank and the Group as of 31 December 2023, 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 Unconsolidated 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the unconsolidated and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the unconsolidated 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

<table>
<tr><td colspan="2">Loss allowance for expected credit losses on loans and advances to customers
On December 31, 2023, Loans and advances to customers in unconsolidated financial statements amounted to EUR 3.343 million (31.12.2022: EUR 3.092 million) including loss allowance for expected credit losses in amount of EUR 115 million (31.12.2022: EUR 131 million) while in consolidated financial statements amounted to EUR 3.476 million (31.12.2022: 3.179 million) including loss allowance for expected credit losses in amount of EUR 117 million (31.12.2022: EUR 133 million). For the accounting framework refer to note 2 “Basis for preparation”, for accounting policies see note 3 „Materially significant accounting polices” section “Impairment of financial assets” 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 35 “Impairment losses” 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>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.</td><td>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.;</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (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 unconsolidated and consolidated financial statements for the year ended 31 December 2023.</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>

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

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

On December 31, 2023, provisions for court cases in unconsolidated financial statements amounted to EUR 75 million (31.12.2022.: EUR 66 million) while in consolidated financial statements amounted to EUR 77 million (31.12.2022.: EUR 68 million). For the accounting framework refer to note 3 „Materially significant accounting polices", and for accounting estimates and judgements in applying accounting policies see note 4 "Significant accounting estimates and judgements" section „Provisions for court cases". For the additional information regarding identified key audit matter, refer to note 25 "Provisions for liabilities and charges" to the accompanied financial statements.</td></tr>
<tr><td>Key audit matter (continued):</td><td>How the matter was addressed in our audit (continued)::</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 unconsolidated and consolidated financial statements for the year ended 31 December 2023.</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 Matters (continued)

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

For the year ended 31 December 2023 the Group achieved net income from management fee for management of mandatory and voluntary pension funds in amount of EUR 18 million (2022: EUR 17 million). For the accounting framework refer to note 3 „Materially significant accounting polices”, section „Fee and commission income and expenses”. For the additional information regarding identified key audit matter, refer to note 30 “Fee and commission income” to the accompanying financial statements.</td></tr>
<tr><td>Key audit matter (continued):</td><td>How the matter was addressed in our audit (continued):</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 unconsolidated and consolidated financial statements for the year ended 31 December 2023.</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>

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

<table>
<tr><td colspan="2">Valuation of assets and liabilities from insurance contracts
As of 31 December 2023, the Group has insurance liabilities in the amount of EUR 225 million (31.12.2022: EUR 210 million). For the accounting framework refer to note 3 „Materially significant accounting polices", section "Insurance liabilities", 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 26 b) "Insurance liabilities" to the accompanying financial statements.</td></tr>
<tr><td>Key audit matter(continued):</td><td>How the matter was addressed in our audit:</td></tr>
<tr><td>Insurance contracts represent a significant component of financial statements, reflecting the financial obligations and uncertainties arising from the Group's insurance activities. The valuation of assets and liabilities from insurance contracts is crucial as it directly impacts the financial position, performance, and overall risk profile of the Bank and the Group.

The adoption of the International Financial Reporting Standard ('IFRS') 17 Insurance Contracts, effective from 1 January 2023, has introduced a fundamental change in how assets and liabilities arising from insurance contracts are measured and presented. As IFRS 17 replaced the previous standard IFRS 4 Insurance Contracts, it also introduced a new comprehensive framework for the recognition, measurement, and disclosure of insurance contracts aiming to provide users of financial statements with improved transparency and comparability regarding the financial performance and risk exposure of insurance activities.

The implementation of IFRS 17 has presented significant changes and complexities to the measurement of assets and liabilities from insurance contracts, impacting various account balances and classes of transactions.</td><td>To address the risks associated with the valuation of assets and liabilities from insurance contracts 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.

For the valuation of the assets and liabilities from insurance contracts, we performed the following audit procedures with the use of our own actuarial experts:

<u>Review of the IFRS 17 Adoption Process</u>
i. Gaining an understanding of the processes to estimate the transition effect and understanding relevant controls over the transition process;
ii. Assessing the first-time adoption of IFRS 17, including identification of groups of contracts, determination of the appropriate measurement models, establishment of specific levels of aggregation and methodology elections to ensure conformity with requirements of IFRS 17;
iii. Analyzing documentation supporting application choices for the identification of the group of contracts and consequent valuation models adopted at the transition date.

<u>Evaluation of internal controls</u>
iv. Gaining an understanding of the control environment and relevant internal controls by the Management in the valuation process of assets and liabilities from insurance
v. Evaluating the adequacy of the design and verifying the implementation of identified relevant internal controls;</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter (continued):</th><th>How the matter was addressed in our audit (continued):</th></tr>
<tr><td>
In its financial statements, the Company and the Group have presented the transition effect of the IFRS 17 adoption that comprises a negative effect on the statement of the comprehensive income in the amount of EUR 90 thousand for the year ending 31 December 2022. First time adoption of the IFRS 17 did not have any effects on the capital and reserves as at the transition date 1 January 2022.

The process of valuation of assets and liabilities from insurance contracts involves significant management judgment in developing and using input data within the actuarial calculation models. This judgement is reliant on various factors, including historical trends, future expectations, internal and external variables, any of which could significantly impact the value of these assets and liabilities.

There is also a high degree of complexity due to the numerous assumptions and actuarial valuation models applied with key assumptions including but not limited to estimation of risk adjustment return on investment, interest rates, costs, mortality, longevity, withdrawal assumptions, pension payout quotas and cost quotas being integral to the valuation.

Considering the pervasive complexities of the overall valuation process and the specific challenges associated with the transition to IFRS 17, we consider the valuation of assets and liabilities from insurance contracts in accordance with IFRS 17 a key audit matter for our audit of the financial statements.
</td><td>
<u>Test of actuarial models</u>
i. Testing the reliability and accuracy of relevant actuarial models used for the valuation of assets and liabilities from insurance contracts;
ii. Verifying mathematical calculations, logic, and appropriateness of relevant actuarial model's inputs;
iii. Reviewing and verifying projected cash flows and assumptions used in the actuarial models on a sample basis.

<u>Assessment of management assumptions</u>
iv. Reviewing key technical and accounting decisions, judgments and assumptions made by the Management;
v. Reviewing sensitivity analyses to assess the impact of changes in key assumptions on the valuation of assets and liabilities from insurance contracts and contractual service margin („CSM“).

<u>Review of disclosures in the financial statements</u>
Verifying completeness and accuracy of the disclosures made in the financial statements in accordance with the requirements of the IFRS.
</td></tr>
</table>

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 unconsolidated and the consolidated financial statements and our auditor's report.

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

In connection with our audit of the unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated 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 Unconsolidated and the Consolidated Financial Statements

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

In preparing the unconsolidated 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.

INDEPENDENT AUDITOR'S REPORT (continued)

Report on the Audit of the Financial Statements (continued)

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

Our objectives are to obtain reasonable assurance about whether the unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated and the consolidated financial statements, including the disclosures, and whether the unconsolidated 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the unconsolidated 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 unconsolidated 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 2023 prepared to be made public pursuant to Article 462 (5) of the Capital Market Act, contained in the electronic file *529900I1UZV70CZRAU55-2023-12-31-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 unconsolidated and the consolidated report have been prepared in valid XHTML format;
- Data included in the unconsolidated 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 2023.

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 2023, 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 2nd May 2023 to perform audit of accompanying unconsolidated and consolidated financial statements. Our total uninterrupted engagement has lasted 3 years and covers period from 1 January 2021 to 31 December 2023. We confirm that:

- our audit opinion on the accompanying unconsolidated and consolidated financial statements is consistent with the additional report issued to the Audit Committee of the Bank on 28 March 2024 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.

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

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 2023, 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 unconsolidated and consolidated financial statements prepared in accordance with IFRS. The financial information provided in those forms has been derived from the accompanying financial statements.

Katarina Kadunc

Director and certified auditor

Deloitte d.o.o.

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

28 March 2024

Radnička cesta 80,

10 000 Zagreb,

Republic of Croatia

(all amounts are shown in EUR millions)

Assets	Notes	Group 2023	Group 2022
Cash and current accounts with banks	7	315	1,805
Financial assets at fair value through profit or loss	8	211	132
Fair value hedge	8a	20	32
Placements with and loans to other banks	9	1,447	254
Loans and advances to customers	10	3,476	3,179
Investment securities measured at amortized cost	11a	1,136	595
Investment securities at fair value through other comprehensive income	11b	159	436
Property and equipment	13a	95	95
Investment property	13b	19	18
Property and equipment within operating lease	13c	20	18
Right of use assets	14	7	7
Intangible assets	15	53	55
Other assets	17	28	37
Non-current assets held for sale	18	1	-
Deferred tax assets	16	14	14
Total assets		**7,001**	**6,677**

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

(all amounts are shown in EUR millions)

Liabilities	Notes	Group 2023	Group 2022
Financial liabilities at fair value through profit or loss	19	24	9
Deposits from banks	20	31	108
Deposits from companies and other similar entities	21	2,395	2,354
Deposits from individuals	22	2,633	2,639
Borrowings	23	227	184
Debt securities issued	24	518	261
Provisions for liabilities and charges	25	93	83
Tax liabilities		15	1
Lease liabilities	14a	7	7
Other liabilities	26a	86	68
Insurance contract liabilities	26b	225	210
Subordinated liabilities	27	61	20
Total liabilities		**6,315**	**5,944**
Equity			
Share capital	37	481	481
Share premium	39	2	2
Additional TIER 1 capital	38	40	39
Capital reserve		-	-
Legal reserve	39	23	24
Fair value reserve	39	(6)	(14)
Retained earnings		146	201
Total equity		**686**	**733**
Total liabilities and equity		**7,001**	**6,677**

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

(all amounts are shown in EUR millions)

	Notes	Group 2023	Group 2022
Interest income calculated using the effective interest method	28	218	125
Other interest income	28	40	6
Interest expense	29	(77)	(14)
Net interest income		**181**	**117**
Fee and commission income	30	116	136
Fee and commission expense	31	(43)	(68)
Net fee and commission income		**73**	**68**
Net (loss) from financial instruments at fair value	32	6	(2)
Net gain on trading and foreign exchange differences from translation of monetary assets and liabilities	32	7	20
Net losses from hedge accounting		-	-
Other operating income	33	20	70
Net trading and other income		**33**	**88**
Net operating income		**287**	**273**
Operating expenses	34	(140)	(184)
Depreciation	34a	(20)	(19)
Impairment losses	35	13	(8)
Provisions for liabilities and charges	25	(10)	(8)
Profit before tax		**130**	**54**
Income tax expense	36	(25)	(9)
Profit for the year		**105**	**45**

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

(all amounts are shown in EUR millions)

	Notes	Group 2023	Group 2022
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		1	(1)
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		7	(17)
Other comprehensive income / (loss) for the year, net of tax		**8**	**(18)**
Total comprehensive income for the year		**113**	**27**
Profit for the year			
Attributable to:			
- Owners of the parent		105	45
Basic earnings per share attributable to the equity holders of the parent in EUR	43	**28.99**	**12.34**
Diluted earnings per share attributable to the equity holders of the parent in EUR	43	**28.99**	**12.34**

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

(all amounts are shown in EUR millions)

Group	Share capital	Share premium	Additional TIER 1 capital	Capital reserve	Legal reserve	Fair value reserve	Retained earnings	Total equity attributable to to the equity holders of the parent
At 1 January 2022	**481**	**2**	**39**	**-**	**24**	**4**	**176**	**726**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	45	45
Other comprehensive income								
Change in fair value of equity financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	(1)	-	(1)
Change in fair value of debt financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	(17)	-	(17)
Total comprehensive income	-	-	-	-	-	(18)	45	27
Other changes	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	(16)	(16)
AT1 coupon (Note 39)	-	-	-	-	-	-	(4)	(4)
At 31 December 2022	**481**	**2**	**39**	**-**	**24**	**(14)**	**201**	**733**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	105	105
Other comprehensive income								
Change in fair value of equity financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	1	-	1
Change in fair value of debt financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	7	-	7
Total comprehensive income	-	-	-	-	-	8	105	113
Other changes	-	-	1	-	(1)	-	(3)	(3)
Dividend paid	-	-	-	-	-	-	(153)	(153)
AT1 coupon (Note 39)	-	-	-	-	-	-	(4)	(4)
At 31 December 2023	**481**	**2**	**40**	**-**	**23**	**(6)**	**146**	**686**

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

(all amounts are shown in EUR millions)

	Notes	Group 2023	Group 2022
Cash flows from operating activities			
Profit before tax		130	54
Adjustments for:			
- Depreciation	34a	20	20
- Foreign exchange differences	32	2	1
- Realised gains / (losses) on financial assets at fair value	32	(6)	2
- Net release from impairment losses	25,35	4	16
- Net interest income	28,29	(181)	(116)
Changes in operating assets and liabilities			
Net (increase) / decrease of financial assets at fair value through profit or loss	8	(74)	116
Net decrease / (increase) in fair value hedge	8a	18	(29)
Net (increase) in placements with banks, with original maturity more than three months		(7)	(17)
Net decrease in obligatory reserve with the Croatian National Bank		-	248
Net increase in loans and advances to customers	10	(276)	(227)
Net decrease / (increase) in other assets	17	11	(11)
Net increase in right of use assets	14	(2)	(5)
Net increase / (decrease) in financial liabilities at fair value through profit or loss	19	11	(1)
Net (decrease) / increase in deposits from banks	20	(76)	68
Net increase in deposits from companies and other similar entities	21	44	210
Net (decrease) / increase in deposits from individuals	22	(5)	192
Net increase in other liabilities	26a	37	24
Interest received (excluding investment securities)		223	115
Interest paid		(57)	(14)
Income tax paid		(11)	(10)
Net cash from operating activities		***(195)***	***636***

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

(all amounts are shown in EUR millions)

	Notes	Group 2023	Group 2022
Cash flows from investing activities			
Interest received from securities at fair value through other comprehensive income		3	7
Interest received from securities measured at amortized cost		17	11
Payments for purchase of securities measured at amortized cost		(541)	(244)
Proceeds from purchase of securities measured at fair value through other comprehensive income		280	175
Payments for purchase of property, equipment and intangible assets		(26)	(21)
Proceeds from disposal of property, equipment and intangible assets		5	4
Proceeds from asset held for sale		-	7
Payments for purchase of property and equipment within operational lease		(9)	(5)
Net cash from investing activities		***(271)***	***(66)***
Cash flows from financing activities			
Receipts from borrowings	23	2,052	2,303
Repayment of borrowings	23	(2,009)	(2,264)
Receipt of subordinated loan	27	40	-
Repayment of a subordinated loan	27	-	(49)
AT1 coupon paid	38	(4)	(4)
Dividend paid		(153)	(16)
Debt securities issued	24	300	263
Debt securities repayment	24	(63)	(130)
Repayment of lease liabilities		-	(1)
Net cash from financing activities		**163**	**102**
Effects of foreign exchange differences on cash and cash equivalents		(1)	4
Net increase / (decrease) in cash and cash equivalents		**(304)**	**676**
Cash and cash equivalents at the beginning of the year		**2,034**	**1,358**
Cash and cash equivalents at the end of the year	44	**1,730**	**2,034**

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

(all amounts are shown in EUR millions)

Assets	Note	Bank 2023	Bank 2022
Cash and current accounts with banks	7	310	1,801
Financial assets at fair value through profit or loss	8	31	40
Fair value hedge	8a	20	32
Placements with and loans to other banks	9	1,445	250
Loans and advances to customers	10	3,343	3,092
Investment securities measured at amortized cost	11a	1,081	489
Investment securities at fair value through other comprehensive income	11b	159	436
Investments in subsidiaries	12	28	40
Property and equipment	13a	93	66
Right of use assets	14	6	18
Intangible assets	15	49	51
Other assets	17	21	26
Non-current assets held for sale	18	1	-
Deferred tax assets	16	13	13
Total assets		**6,600**	**6,354**

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

(all amounts are shown in EUR millions)

Liabilities	**Notes**	**Bank 2023**	**Bank 2022**
Financial liabilities at fair value through profit or loss	19	23	9
Deposits from banks	20	31	108
Deposits from companies and other similar entities	21	2,432	2,397
Deposits from individuals	22	2,633	2,639
Borrowings	23	87	73
Debt securities issued	24	518	261
Provisions for liabilities and charges	25	90	81
Tax liabilities		14	2
Lease liabilities	14a	6	19
Other liabilities	26a	66	54
Subordinated liabilities	27	61	20
Total liabilities		**5,961**	**5,663**
Equity			
Share capital	37	481	481
Share premium	39	2	2
Additional TIER 1 capital	38	40	39
Capital reserve		-	-
Legal reserve	39	22	23
Fair value reserve	39	(6)	(14)
Retained earnings		100	160
Total equity		**639**	**691**
Total liabilities and equity		**6,600**	**6,354**

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

(all amounts are shown in EUR millions)

	Notes	Bank 2023	Bank 2022
Interest income calculated using the effective interest method	28	210	118
Other interest income	28	36	4
Interest expense	29	(74)	(14)
Net interest income		**172**	**108**
Fee and commission income	30	93	114
Fee and commission expense	31	(41)	(63)
Net fee and commission income		**52**	**51**
Net (loss) from financial instruments at fair value	32	7	12
Net gain on trading and foreign exchange differences from translation of monetary assets and liabilities	32	7	21
Net losses from hedge accounting		-	-
Other operating income	33	10	12
Net trading and other income		**24**	**45**
Net operating income		**248**	**204**
Operating expenses	34	(117)	(126)
Depreciation	34a	(17)	(17)
Impairment losses	35	13	(9)
Provisions for liabilities and charges	25	(9)	(8)
Profit before tax		**118**	**44**
Income tax expense	36	(22)	(7)
Profit for the year		**96**	**37**

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

	Notes	Bank 2023	Bank 2022
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		1	(1)
Items that are or may 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		7	(17)
Other comprehensive income / (loss) for the year, net of tax		**8**	**(18)**
Total comprehensive income for the year		**104**	**19**

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

(all amounts are shown in EUR millions)

Bank	Share capital	Share premium	Additional TIER 1 capital	Capital reserve	Legal reserve	Fair value reserve	Retained earnings	Total equity attributable to the equity holders of the parent
At 1 January 2022	**481**	**2**	**39**	**-**	**23**	**4**	**134**	**683**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	37	37
Other comprehensive income								
Change in fair value of equity financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	(1)	-	(1)
Change in fair value of debt financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	(17)	-	(17)
Total comprehensive income	-	-	-	-	-	(18)	37	19
Other changes	-	-	-	-	-	-	9	9
Dividend paid	-	-	-	-	-	-	(16)	(16)
AT1 coupon (Note 38)	-	-	-	-	-	-	(4)	(4)
At 31 December 2022	**481**	**2**	**39**	**-**	**23**	**(14)**	**160**	**691**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	96	96
Other comprehensive income								
Change in fair value of equity financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	1	-	1
Change in fair value of debt financial assets at FV through OCI, net of tax and realised amounts	-	-	-	-	-	7	-	7
Total comprehensive income	-	-	-	-	-	8	96	104
Other changes	-	-	1	-	(1)	-	1	1
Dividend paid	-	-	-	-	-	-	(153)	(153)
AT1 coupon (Note 38)	-	-	-	-	-	-	(4)	(4)
At 31 December 2023	**481**	**2**	**40**	**-**	**22**	**(6)**	**100**	**639**

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

(all amounts are shown in EUR millions)

	Notes	Bank 2023	Bank 2022
Cash flows from operating activities			
Profit before tax		118	44
Adjustments for:			
- Depreciation	34a	17	17
- Foreign exchange differences	32	2	1
- Net release from Impairment losses	25,34,35	3	17
- Realised (gains) / losses on financial assets at fair value	32	(7)	3
- Value adjustment of investment in subsidiaries	34	-	12
- Net interest income	28,29	(172)	(108)
- Dividend income from subsidiaries	33	(6)	(7)
Changes in operating assets and liabilities			
Net decrease in financial assets at fair value through profit or loss	8	15	53
Net decrease / (increase) of fair value hedge	8a	18	(30)
Net (increase) in placements with banks, with original maturity more than three months		(10)	(10)
Net decrease in obligatory reserve with the Croatian National Bank		-	248
Net increase in loans and advances to customers	10	(252)	(374)
Net decrease / (increase) in other assets	17	2	(7)
Net (increase) in right of use assets	14	(1)	(4)
Net increase / (decrease) in financial liabilities at fair value through profit or loss	19	10	(1)
Net (decrease) / increase in deposits from banks	20	(76)	34
Net increase in deposits from companies and other similar entities	21	37	339
Net (decrease) / increase in deposits from individuals	22	(5)	319
Net increase in other liabilities	26a	20	19
Interest received (excluding investment securities)		220	114
Interests paid		(53)	(12)
Income tax paid		(10)	(7)
Net cash from operating activities		***(130)***	***660***

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

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(all amounts are shown in EUR millions)

	Notes	Bank 2023	Bank 2022
Cash flows from investing activities			
Interest received from securities at fair value through other comprehensive income		15	7
Interest received from securities measured at amortized cost		3	8
Payments for purchase of securities measured at amortized cost		(591)	(198)
Proceeds from purchase of securities measured at fair value through other comprehensive income		281	131
Investments in associates		-	(10)
Proceeds from asset held for sale		-	8
Dividend received from subsidiaries	33	6	7
Payments for purchase of property, equipment and intangible assets		(19)	(18)
Net cash from investing activities		***(305)***	***(65)***
Cash flows from financing activities			
Receipts from borrowings	23	1,980	2,240
Repayment of borrowings	23	(1,966)	(2,227)
Increase of subordinated loans	27	40	-
Repayment of a subordinated loan	27	-	(49)
AT1 coupon paid	38	(4)	(4)
Dividend paid		(153)	(16)
Debt securities issued	24	300	263
Debt securities repayment	24	(63)	(130)
Payment of lease liabilities		(4)	(3)
Net cash from financing activities		***130***	***74***
Effects of foreign exchange differences on cash and cash equivalents		(1)	5
Net increase / (decrease) in cash and cash equivalents		**(306)**	**674**
Cash and cash equivalents at the beginning of the year		**2,031**	**1,357**
Cash and cash equivalents at the end of the year	44	**1,725**	**2,031**

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

(all amounts are shown in EUR millions)

1. General information

Raiffeisenbank Austria d.d. ("the Bank" or "the Parent") is a joint stock company incorporated and headquartered 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 mirovinsko osiguravajuće društvo d.d.

Details of the Group composition and shareholders are provided in Note 12. *Investment in subsidiaries*.

Management and the governance

Supervisory Board at 31 December 2023 and changes during the year:

Sabine Zucker	President since December 19, 2022
Andreas Gschwenter	Member from October 1, 2023
	Deputy President since October 2, 2023
Peter Jacenko	Deputy President from January 1, 2021
	Member since October 2, 2023
Hrvoje Markovinović	Member from January 17, 2019
	Member since January 18, 2023
Herald Kreuzmair	Member since June 17, 2021
Iryna Arzner	Member since December 13, 2021
Klaus Buchleitner	Member since March 6, 2023

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

Sabine Zucker	Member from June 17, 2021
	President since 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 from January 17, 2019
Herald Kreuzmair	Member since June 17, 2021
Iryna Arzner	Member since December 13, 2021

(all amounts are shown in EUR millions)

1. General information (continued)

Management and the governance (continued)

Management Board at 31 December 2023 and changes during the year:

Liana Keserić	President since May 14, 2021
Georg Feldscher	Member since November 1, 2023
Višnja Božinović	Member since January 1, 2022
Ante Odak	Member since September 16, 2021

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

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

Audit Committee at 31 December 2023 and changes during the year:

Harald Kreuzmair	President since August 3, 2021
Klaus Buchleitner	Deputy President since June 12, 2023
Petar Jacenko	Deputy President from June 21, 2019
	Member from June 12, 2023
Hrvoje Markovinović	Member from September 15, 2022 to June 12, 2023

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

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

These financial statements were authorised for issue by the Management Board on 28 March 2024.

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

Unconsolidated and consolidated financial statements (hereinafter: financial statements) of the Bank and Group were compiled in accordance with the International Financial Reporting Standards as adopted by the European Union (hereinafter: IFRS) in compliance with the requirements of the International Accounting Standards Board (hereinafter: IASB) and International Accounting Standard (hereinafter: IAS) as adopted by the EU pursuant to the Regulation EC 1606/2002, including applicable interpretations of the International Financial Reporting Standards Interpretations Committee (hereinafter: IFRS Interpretations Committee).

Standards and interpretations published by the EU, which have not yet become applicable and adopted, are clarified in note 2 f).

Materially significant accounting policies applied in the preparation of these financial statements are summarized below.

The Group is obliged to prepare its annual financial statements in accordance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF) 2020/C 379/01. Due to the technical limitations specific to the marking of blocks of consolidated and unconsolidated financial statements according to the European Single Electronic Format, the presentation of certain labels differs from the presentation of notes in the accompanying consolidated and unconsolidated financial statements.

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 assets.

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 recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of applicable standards that have significant effects on 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 Board believes that the Group and the Bank are adequately financed, and it is predicted that the Group and the Bank will have adequate funds to continue operations.
As a result, the Management accepts the going concern basis of preparation of financial statements.

2. Basis of preparation (continued)

d) Functional and presentational currency

As of 1 January 2023, the Republic of Croatia entered the euro area and the Croatian kuna (HRK) was replaced by the new currency, the euro (EUR). As a result, the Bank and Group changed their presentation and functional currency in the financial statements for the year 2023 as per that date to the euro. Amounts are rounded to the nearest amount in millions of euros (unless stated otherwise). Comparative financial data were translated using the official conversion rate of HRK 7,53450 for EUR 1,00

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 2023.	1 USD= 1.105 EUR	1 CHF= 0.926 EUR	
31. December 2022.	1 EUR=7.534500 HRK	1 USD=7.064035 HRK	1 CHF=7.651569 HRK

e) 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 12 *Investments in subsidiaries*.
The Group controls an investee when it has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes in one or more elements of control. This includes circumstances in which protective rights held by the Group (for example, those resulting from lending activity) become substantive and lead to the Group having power over an investee.

Business combinations

The Group apply 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.

2. Basis of preparation (continued)

e) Basis of consolidation (continued)

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.

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.

(all amounts are shown in EUR millions)

2. Basis of preparation (continued)

e) Basis of consolidation (continued)

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.

f) 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, 2023.

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

Their adoption did not have any significant impact on the disclosures or on the amounts reported in these financial statements.
Impact of IFRS 17 adoption is further described below.

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..

As opposed to IFRS 4, which are based mostly on monitoring former local accounting policies to the effect of measurement, IFRS 17 provides a comprehensive model (general model) for insurance contracts, amended by the variable fee approach for direct participation contracts that have a significant investment component, and the allocated premium approach mostly for a short-term agreements, which refers to certain non-life insurance contracts in general.

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 Service 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.

2. Basis of preparation (continued)

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

IFRS 17: *Insurance Contracts (continued)*

- 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.

Transition

The Company made an evaluation to assess possible transitional approaches under the standard. According to the requirement, it is necessary to adopt a completely retrospective approach, unless considered impracticable for the unit of account under consideration. In all other cases, instead, it is necessary to adopt the modified retrospective approach or the fair value approach.

Impact assessment

Under IFRS 17, revenue is recognised in profit or loss over the term of the contract, and is 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 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 is included in the measurement of liabilities under IFRS 17.

The transition to IFRS 17 did not have an impact on the Group, since the effect on the valuation of insurance contracts 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.

Retroactive application of IFRS 17 to obligations from pension contracts caused a reduction in income at 31 December 2022 from EUR 31 million to EUR 4 million and a reduction of expenses under insurance contracts from EUR 19 million to EUR 4 million. The reason for this is that according to IFRS 17, income and expenses are recognized over the life of the contract.
IFRS 17 affects the movement of insurance liabilities significantly due to a change in the measurement method, resulting in measurement inconsistency. In order to reduce this inconsistency, the Group used the possibility of reclassification in accordance with IFRS 17 in keeping with IFRS 17 4.1.2 c) assets designated at fair value through profit and loss and a part of the portfolio of government bonds was reallocated from the business model hold to collect to the business model of financial assets designated at fair value through profit and loss. The reclasification was carried out on the date of 01 January 2023 and bonds were reclassified in the amount of EUR 78 million. The effect of the reclassification of insurance liabilities on the initial balance was EUR 9 million and it is shown in the table below.

(all amounts are shown in EUR millions)

2. Basis of preparation (continued)

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

Transition (continued)

Impact assessment (continued)

	Carrying amount in accordance with business models 31.12.2022	Reclassification	Change in valuation	Carrying amount in accordance with business models 01.01.2023
At amortised cost				
Investment securities at amortized cost	132	(78)	-	54
At fair value through profit or loss				
Financial asset designated at fair value through profit or loss	64	78	(9)	133

The Group did not apply the retroactive approach and revised the comparative amounts and presented an additional report on the financial position on 1 January 2022 as there was no impact on the initial balance of the capital of the Raiffeisen Pension Insurance Company Plc. The application of IFRS 17 in relation to IFRS 4 had a negative immaterial effect on the profit and loss account of Raiffeisen Pension Insurance Company Plc. as per 31 December 2022 in the amount of EUR 90 thousand.

Considering that the IFRS 17 implementation introduced a new comprehensive framework for the recognition, measurement and presentation of insurance contracts, which represents fundamental changes in the way assets and liabilities arising from insurance contracts are measured and presented, Raiffeisen Pension Insurance Company Plc. applied a retroactive approach and restated the comparative amounts in the separate financial statements.

Standards and changes to standards published by the IASB, adopted in the European Union but not yet effective

Standard	Title	Date of Adoption in the EU
Changes and amendments to IFRS 16	Lease Liability and Lease Liability in a Sale and Leaseback (Effective date of the IASB: 1 January 2024)	1 January 2024
Changes and amendments to IAS 1	Classification of liabilities as current or long-term and Long-term liabilities with contracts	1 January 2024

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.

2. Basis of preparation (continued)

f) 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

Standard	Title	Adoption status in the EU
Changes to IAS 7 and IFRS 7	Supplier Finance Arrangements (Effective date set by the IASB: 1 January 2024)	Not yet adopted
Changes IAS 21	Lack of Exchangeability (Effective date set by the IASB: 1 January 2025.)	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 10 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. Materially 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 50 *Risk Management*.

3. Materially 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 fees and other services provided by and to the Group including asset and investment management and custody services.

Fee and commission income and expense are recognised in profit or loss upon performance of specific service, except in cases when being accounted for in the effective interest rate calculation.
Portfolio and other management advisory and service fees are recognised based on the applicable service contracts after full execution.

Insurance intermediation fees are recognized when realized in whole. Income from insurance intermediation arises at the time of concluding insurance with the client. The expense is incurred on a monthly basis when the insurance company submits an invoice to the Bank for the contracts from the previous month.
Asset management fees related to investment fund management are recognised on an accruals basis over the period in which the service is fully provided. The same principle is applied for custody services that are continuously provided over 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.

3. Materially 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.

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.

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).

3. Materially significant accounting policies (continued)

Financial instruments: classification (continued)

Financial assets measured at amortised cost (continued)

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, 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.

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.

3. Materially significant accounting policies (continued)

Financial instruments: classification (continued)

b) Investments in equity instruments designated at 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 Group allocated part of the financial assets to the portfolio of financial assets distributed according to the fair value option through the profit or loss account to significantly reduce measurement inconsistency which would otherwise result from the swap contracts that are not closed "back-to-back" nor are they intended for hedge accounting.

After the first implementation of IFRS 17, part of the portfolio of financial assets was allocated to the option at fair value through the profit or loss account to reduce measurement inconsistency, resulting from a change in parameters, which are applied when measuring insurance contract liabilities.

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.

- 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.

3. Materially significant accounting policies (continued)

Business model assessment (continued)

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).

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 were not reclassified after initial recognition, except in the period after the Group changed its business model for managing financial assets. Financial liabilities were not reclassified.

3. Materially significant accounting policies (continued)

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.

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.

3. Materially significant accounting policies (continued)

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.

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 instrument 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 51). 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.

3. Materially significant accounting policies (continued)

Fair value measurement principles (continued)

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.

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.

3. Materially significant accounting policies (continued)

Modifications of financial assets and liabilities (continued)

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.

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.

3. Materially significant accounting policies (continued)

Impairment of financial assets (continued)

Significant increase of credit risk (continued)

- *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/. 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.

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.

3. Materially significant accounting policies (continued)

Impairment of financial assets (continued)

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 11a *Investment securities measured at amortized cost* and Note 11b *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 9 *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'.

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.

3. Materially significant accounting policies (continued)

Impairment of financial assets (continued)

Measuring expected credit loss (continued)

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 (Stage 2 contracts). On the other hand, for exposures classified as Stage 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.

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 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).

3. Materially significant accounting policies (continued)

Impairment of financial assets (continued)

Measuring expected credit loss (continued)

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.

The credit conversion factor (hereinafter: CCF) is defined as the ratio between the currently unused amount for a certain off-balance sheet exposure, which amount is expected to be used at the time of the client's default, and the currently unused amount of the off-balance sheet liability. The Group set the CCF value to 1 (100%) regardless of the segment, product type or 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.

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.

3. Materially significant accounting policies (continued)

Impairment of financial assets (continued)

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.

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.

3. Materially significant accounting policies (continued)

Hedge accounting

The group continued to use hedge accounting in accordance with IFRS 39.
The Group uses derivative financial instruments to manage its exposures to interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which they are entered to and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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

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

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

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

The hedge accounting is terminated when the Group terminates the hedging relationship, when the hedging instrument expires or is sold, terminated or used, or the hedge no longer meets the criteria for hedge accounting. From that date any adjustment of a carrying amount of a hedge item referring to the changes of a fair value related to risk being hedged is amortized through profit and loss.
If the hedged item is derecognized, the unamortised fair value is recognized immediately in profit and loss.
The Group applies fair value hedge of interest rate risk of customer loans on an individual basis and on a portfolio basis.

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.

3. Materially significant accounting policies (continued)

Treasury bills and debt securities (continued)

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 Materially 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.

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.

3. Materially significant accounting policies (continued)

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, these are similarly accounted 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.
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.

Insurance contracts liabilities

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

Scope of the Group policy applies IFRS 17 to:

- insurance contracts, including issued reinsurance contracts,
- reinsurance contracts, and
- investment contracts with discretionary participation features.

A contract shall be deemed to be an insurance contract if the issuer accepts a significant insurance counterparty risk by agreeing to compensate the other party if a specified uncertain future event affects it adversely.
A contract whereby a significant insurance is transferred from the insurance company onto reinsurance company is the reinsurance contract.

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3. Materially significant accounting policies (continued)

Insurance contracts liabilities (continued)

A group or series of insurance contracts with the same or related counterparty can achieve or be designed to achieve a joint commercial effect. In order to report the content of such contracts, it is necessary to treat a set or series of contracts as a whole. An insurance contract can contain one or more components that would be within the scope of the second standard if they were separate contracts. These components include:
- investment components,
- service components,
- embedded derivatives.

An investment component exists if the insurance contract requires the entity to pay an amount to the insured entity under all circumstances, regardless of whether the insured event occurs.

Level of grouping of insurance contracts into a set of insurance contracts

Level of grouping of insurance contracts into a groups of insurance contracts is defined in compliance with the standard, as follows:
- Portfolios consist of contracts that are exposed to similar risks and are managed jointly
- Contract groups: at initial recognition of the contract, contracts in each contract portfolio are classified into contract groups according to:
    - Profitability, and specifically:
        - · group of contracts which are difficult at initial recognition (non-performing)
        - · group of contracts which are unlikely to become harmful after initial recognition, if any; and
        - · group of other contracts, if any.

The Group determined the level pooling contracts into groups of insurance contracts, and the measurement method in compliance with the standard. All contracts are classified in the group of other contracts.

Contract boundaries

In the measurement of a group of insurance contracts, the Group includes all future cash flows that are within the boundaries of each contract in the group. Cash flows are within the boundaries of an insurance contract if:
- contract issuer can force the policyholder to pay the premium,
- contract issuer has a material obligation to provide the policyholder with services from the insurance contract.

No liability or asset is recognized for amounts related to expected premium or expected damage beyond the boundaries of the insurance contract. Such amounts refer to future contracts. If the contract requires the policyholder to renew or otherwise continue the contract, the Group assesses whether the premiums and related cash flows resulting from the renewed contract are within the boundaries of the original contract. When reassessing contract boundaries, all risks that would have been taken into account when signing equivalent contracts on the date of renewal for the remaining service are taken into account. Contract boundaries are reassessed at each balance sheet date and are subject to change.

Their change in subsequent reporting periods can lead to significant adjustments to the amount of assets and liabilities from the insurance contract which the Group declares in its financial statements as on the reporting date. The bases its assumptions and estimates on parameters that are available at the time the financial statements are prepared, but current circumstances and assumptions about future periods are subject to change due to changes in the market or due to circumstances beyond the control of the Group or the Company. Such changes are reflected in the assumptions of how cash flows occur and consist of:
- estimates of future cash flows,
- adjustment that reflects the time value of money and the financial risks associated with future cash flows, and
- risk adjustment for non-financial risk.

3. Materially significant accounting policies (continued)

Insurance contracts liabilities (continued)

Contractual service margin (CSM)

The amount of contractual service margin for a group of insurance contracts is recognized in profit or loss in each period to reflect the insurance contract services provided under the insurance contract group during that period. The amount is determined according to:

- identifying coverage units in the group; The number of coverage units in a group is the quantity of coverage provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and its expected coverage duration
- allocation of the contractual service margin at the end of the period (prior to recognition of any amounts in profit or loss that reflect insurance contract services rendered in the period) equally on each unit of coverage provided in the current period and which is expected to be provided in the future
- recognition in profit or loss of the amount allocated to the coverage units insured in the period.

Most insurance contracts use the contractually agreed level of benefits or sum insured or earned premiums as the basis for determining coverage units. The aggregate coverage units of each group of insurance contracts are re-evaluated at the end of each reporting period by adjustment for increases in coverage for newly recognized contracts and reductions in remaining coverage for incurred damage and for expected deaths during the period.

Presentation and reporting

Implementation of IFRS 17 IFRS has change presentation and publication of assets and liabilities, income and expenses resulting from insurance contracts significantly. The layout of financial reports has also change significantly. Thus, instead of the previous items that made up the premium, incurred losses and changes in insurance contract liabilities, the profit and loss account have the following items: insurance revenues, costs of insurance services.

In the statement of financial position, previous items of technical provisions were replaced by assets and liabilities from the insurance contract. Additionally, in the financial statement, previous claims and liabilities related to direct insurance business are a part of the assets and liabilities from the insurance contract and are not shown as separate items. The same applies to deferred acquisition costs, which are no longer reported as intangible assets, but are already implicitly included in the contractual service margin.

The Group breaks down insurance revenues and costs of insurance services into amounts recognized in the profit and loss account as follows:

- result of insurance services consisting of insurance revenue and insurance service costs; and
- financial income or insurance expenses.

Insurance revenues shows the provision of services arising from a group of insurance contracts, i.e., an amount that reflects the compensation to which the entity expects to be entitled in exchange for services rendered. Costs of insurance services represent incurred damage and expenses and other expenses related to insurance services. The Group determine the insurance revenue related to the cash flows from the acquisition of insurance by allocating a portion of the premiums related to the return of these cash flows at each reporting period in a systematic manner based on the passage of time. The Group recognize the same amount as the cost of insurance services.

Premium revenues

Premium revenues arising from insurance contracts consist of the change in the book value of a group of contracts resulting from the effect of the time value of money.

3. Materially significant accounting policies (continued)

Insurance contracts liabilities (continued)

Fair value approach

The Group uses the fair value approach for all accounting units. Based on information available at the transition date, the Company:

- defines groups of insurance contracts
- assesses whether the insurance contract meets the definition of an insurance contract with direct participation features; and
- defines discretionary cash flows for insurance contracts without direct participation features.

When applying the fair value approach, the Group determines the contractual service margin or loss component of the liability for remaining coverage as the difference between the fair value of a group of insurance contracts and the value of expected cash flows (including adjustment risk for non-financial risk) at the transition date.
Due to limited resources, the Group used a simplification by assuming that the fair value is exactly equal to the value of the assets to cover the Group's liabilities.

Insurance contract liabilities are calculated by the appointed authorized actuary of the Group in keeping with the prescribed legal framework.

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.

Property and equipment

Items of property 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.

(all amounts are shown in EUR millions)

3. Materially significant accounting policies (continued)

Property and equipment (continued)

The estimated useful lives are as follows:

	2023	**2022**
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
Leasehold improvements (depending on term of lease contract)	1 - 20 years	-

In 2023, leasehold improvements are reclassified from intangible assets to tangible assets.

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 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:

	2023	**2022**
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.

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.

3. Materially significant accounting policies (continued)

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.

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

	2023	**2022**
Leasehold improvements (depending on term of lease contract)	-	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.

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.

3. Materially significant accounting policies (continued)

Provisions for liabilities and charges (continued)

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.

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.

3. Materially significant accounting policies (continued)

Leases (continued)

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 changes are made to the lease payment that is not accounted for as a separate lease.

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

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

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

Lease modification

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

Employee benefits

a) Defined pension contributions

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

3. Materially significant accounting policies (continued)

Employee benefits (continued)

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 actuary 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 EUR.

Treasury shares

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

Retained earnings

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

Earnings per share

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

Off-balance sheet commitments and contingent liabilities

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

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

3. Materially significant accounting policies (continued)

Off-balance sheet commitments and contingent liabilities (continued)

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 estimates 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 51) and management of financial risks (Note 50) as well as Materially 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 Materially 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. *Materially significant accounting policies*, *Financial instruments: classification, Business model assessment and Analysis of contractual cash flow (SPPI test)*, 9. *Loans and advances to other banks*, note 10. *Loans to customers* and Note 50. *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 approach 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.

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.

4. Significant accounting estimates and judgements (continued)

b) Impairment of financial assets (continued)

Change in calculation of expected credit loss in non-retail(continued)

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.
The SRF (Special Risk Factor) is implemented in the form of special risk factors, which introduces a module specific for the industry, in addition to macro-economic scenarios into the ECL calculation for the non-retail portfolio. On parts of the portfolio, which have been affected by the weakening of the demand of export partners as well as the growth of interest rates, a potentially significant increase in credit risk was identified, resulting in approx. EUR 6,8 million of additional provisions.

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. During 2023, the Bank has implemented new LGD and ELBE model (expected loss best estimate model) in retail segment for personal loans and housing loans.

4. Significant accounting estimates and judgements (continued)

b) Impairment of financial assets (continued)

Measuring expected credit loss in retail (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 ELBE models. Namely, the Bank has developed statistical loss estimate models for the private individuals portfolio, which are based on the Bank's own historical data. During 2023, the bank has implemented new LGD and ELBE model in retail segment for personal loans and housing loans. LGD and ELBE parameters are assigned on each exposure based on pooling characteristics which are considered as significant for respective portfolio, Pooling is performed on a monthly basis based on last available data for each exposure in default.

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 private individual segment, over 90 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 ELBE 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.

Thus, during 2023, the Bank has identified part of retail portfolio where it estimates that increased credit risk has occurred due to increased debt burden of certain client (due to high inflation rates and increased interest rates), or environmental, social and governance risks (ESG), but which were still not recognized through implemented quantitative and qualitative indicators for increased credit risk. Therefore, the bank has migrated EUR 187 million of exposures in PI and EUR 19 million in Micro segment from stage 1 to stage 2, with respect to two above mentioned risks. Further, the Bank has, for part of such exposures, also increased coverage by applying higher PD parameters, through post-model adjustment.

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.

4. Significant accounting estimates and judgements (continued)

b) Impairment of financial assets (continued)

Low credit risk portfolio exceptions (continued)

For details see notes: 3. *Materially significant accounting policies; Impairment of financial* assets, 10. *Loans and advances to customers*, 17. *Other assets* and 50. *Risk management*.

c) Fair value of derivatives

The fair value of OTC derivatives is determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.
For details see Notes: 3. *Materially significant accounting policies*, 8. *Financial assets at fair value through profit or loss* and 19. *Financial liabilities at fair value through profit or loss*.

d) Fair value of non-derivative financial instruments

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. Group and the Bank show debt securities in business model held for collect and sale and other models at fair value.

For details see Notes: 3. *Materially significant accounting policies*, 8. *Financial assets at fair value through profit or loss* and 11.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 EUR 9,290 thousand, the Bank estimates potential loss for a portfolio of equivalent litigations.

4. Significant accounting estimates and judgements (continued)

e) Provisions for court cases (continued)

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 and the average amount of claims. The total number of individual disputes consists of the total number of active disputes increased by the number of disputes known by the Bank to have been instituted, but the courts have not submitted the lawsuits to the Bank for a response by the end of 2023.
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 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 2023, 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 25 *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. *Materially significant accounting policies Employee benefits* and Note 25. *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 insurance contract liabilities 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 insurance contract liabilities, the Group implements the provisions of the Ordinance on minimum standards, methods of calculation and guidelines for calculation of insurance contract liabilities of the pension insurance company. The amount of Insurance contract liabilities is calculated by the appointed authorized actuary of the Group. 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.

IFRS 17 requires the use of the application of the fair value principle and market-consistent approaches to the valuation of liabilities as the basis for reporting on your accounts.

4. Significant accounting estimates and judgements (continued)

g) Pension insurance (continued)

In estimating future cash flows, the Group includes, in an unbiased manner, all reasonable and reliable information available without unnecessary cost and effort regarding the amount, timing and uncertainty of those future cash flows at the reporting date. This information includes both internal and external historical data, updated to reflect current expectations of future events.

Estimates of future cash flows reflect the Group's view of current conditions at the reporting date, as long as the estimates of relevant market variables are consistent with observable market prices for those variables.
When estimating future cash flows, current expectations of future events that could affect these cash flows are taken into account, however, expectations of future changes in legislation that would alter or repeal current or create new obligations under existing contracts will not be taken into account until the change in legislation is actually enacted.
The Group's Management Board believes that the current level of estimated insurance liabilities is sufficient to meet the obligations under the pension contracts concluded until 31 December 2023.

Estimation of Future Cash Flows

When estimating future cash flows, the Group primarily uses projections based on deterministic forecasting models. The objective of estimating future cash flows is to determine the expected value, taking into account all reasonable and substantiated information available at the reporting date. Cash flows within the limits of the insurance contract are those that directly relate to the fulfilment of the contract, including cash flows for which the entity has discretion as to the amount or timing. When estimating future cash flows, the Group applies certain market and non-market variables or assumptions. Assumptions that cannot be reliably derived from market values are based on current estimates calculated using internal models and/or publicly available sources (demographic data from the local statistics office) and reflect historical experience.

Discount Rate

The Company adjusts its estimates of expected cash flows for the time value of money and the financial risks associated with those cash flows. The Company applies the bottom-up approach when calculating the appropriate discount rates. The Company uses risk-free interest rates in the form of a swap curve plus the addition of an illiquidity premium as a discount rate used in estimating future cash flows. The illiquidity premium is determined on the basis of yield data for BBB+ rated covered bonds. Percentage of the illiquidity premium is determined taking into account the characteristics of the insurance contract. Discount interest rates are determined on each balance sheet date.

Risk-Free Rate

A fully liquid risk-free yield curve is the basis for a bottom-up approach. The IFRS 17 standard does not explicitly define the basis for deriving the risk-free yield curve. However, it refers to traded instruments that contain negligible levels of credit risk, are highly liquid, reliably priced and cover a wide range of maturities, including longer periods and maturities. As an insurer operating on the Croatian market, the Croatian government bonds are considered the best asset class for this purpose.
The selected bond portfolio contains a certain level of credit risk that is deducted in the next step. The portfolio is highly liquid, reliably priced and covers a wide range of maturities, including longer periods and maturities.

Adjustments to the Risk-Free Rate

Adjustments from the discount rate derived from pure government bonds are necessary to arrive at a risk-free rate. The method involves the use of historical databases of default probability (PD), transfers and loss given defaults (LGD).
Probability of default for government debt is derived from public historical data of Moody's on default probability rates and recovery rates.

4. Significant accounting estimates and judgements (continued)

g) Pension insurance (continued)

Illiquidity Premium

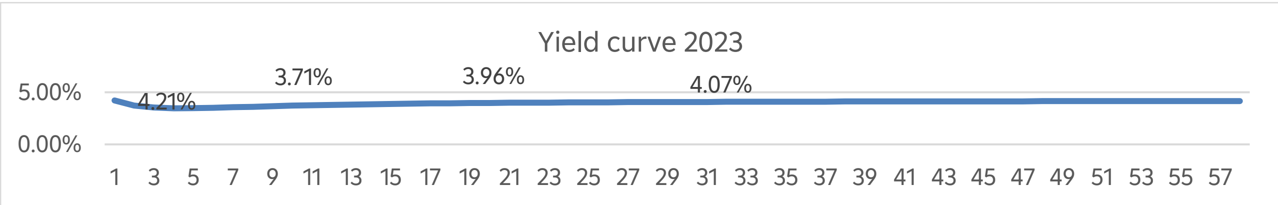
The calculation of illiquidity premium consists of two basic elements:

1. Assessment of the level of illiquidity of liabilities
2. In accordance with this, the illiquidity premium amount

The level of illiquidity of liabilities is assessed on the basis of the contract type and the corresponding contract frameworks. All contracts within a portfolio are annuities with one premium and do not have the buy-back option. Annual cash flows vary in line with inflation rates for contracts that are linked to the CPI and depending on the number of deaths. With these characteristics in mind, we consider the portfolio to be highly illiquid, which allows us to take into account the entire amount – 100% of the calculated illiquidity premium.
The illiquidity premium amount is calculated on the basis of distribution into two comparable asset classes with similar characteristics, and the only difference being liquidity. We use Eurozone corporate bonds rated BBB+ which are members of the Bloomberg EUR Corporate Composite Index BVSC0166 compared to a similar rating held by Portuguese government bonds a Eurozone member and with the same BBB+ rating with sufficient data.

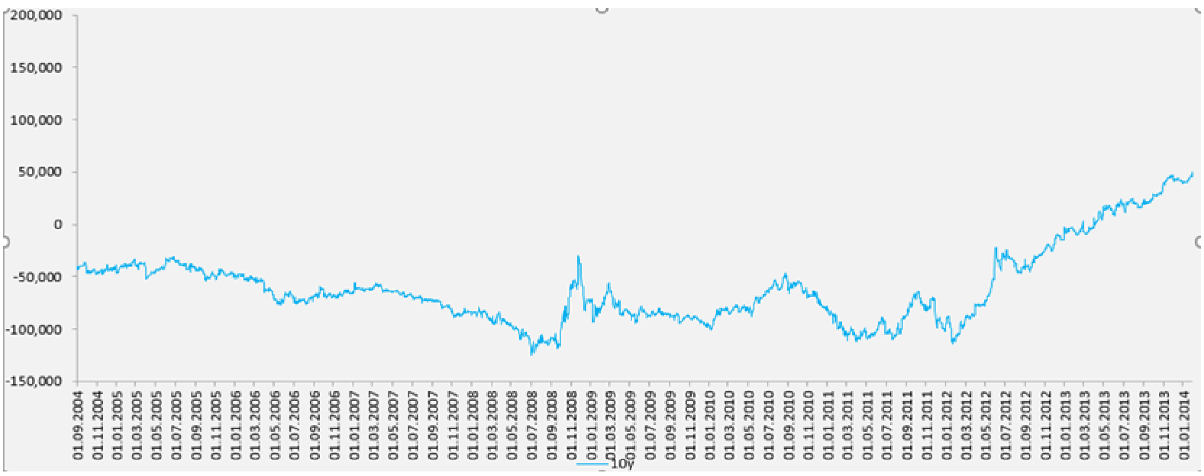
The average modified maturity of liabilities is 10 years. Therefore, the margin for year 10 was taken as relevant and represents a flat amount of the illiquidity premium that will be used throughout the duration.
The final discount rate under IFRS 17 consists of the risk-free rate to which a parallel shift for the illiquidity premium is applied.

Yield curve used:



Price Inflation – Indexation of Annuities

In OMO business, all pensions are indexed. They are linked to the Croatian price index (CPI) calculated as the half-yearly average and delivered by the State Bureau of Statistics. Inflation needs to be included in the cash flow projection of future pensions. The group uses the market 10-year inflation projection for the first 10-year projection and 2% fixed afterwards - which is the ECB's long-term goal.



4. Significant accounting estimates and judgements (continued)

g) Pension insurance (continued)

Price Inflation – Indexation of Annuities (continued)

The chart above shows an analysis of the past performance of 10-year inflation expectations against the actual indexation. It can be seen that they are mostly below 0, meaning that projected inflation was higher than the actual. This leads to the misconception that taking the 10-year swap inflation projection is a fairly conservative approach.

Unit Cost Inflation – Indexation of Costs

A default value of 2% is used for indexation of the cost projection. The default value is adjusted 1 or 2 years ahead based on current expectations. For the year 2023, indexation was set to 5%, and for 2024 to 3%. Further projections are continuously at 2%.

Mortality

The mortality tables used are the latest available from the TS RH 2012-12 with 5-year age reduction. Croatia does not have prescribed annuity tables, but the unofficial ones are close to the TS RH 2010-2012 with an age shift of 5 years. Based on data from the Croatian Pension Fund the average duration of retirement is 22 years.
This is even lower than the life expectancy of TS RH 2010-2012 -5yrs, it would be more like TS RH 2010-2015 -4yrs, but since there is a selection with regard to people who enter the 2nd pillar and there is still not enough own data, the approach of -5yrs is used conservatively. Mortality data are carefully aggregated and if any deviation of own experience from the assumption is observed, the assumption will be corrected.

Costs

Actual allocable costs are used in future cash flow projections. Non-allocable costs are subtracted from allocable costs and are not part of cash flows. Allocating which part of the cost is actually attributable to the contract was made according to the criteria of necessity – the amount of funds needed to fulfil obligations to clients is taken into account. The remaining costs are present for various reasons such as new product development, ensuring a high level of risk requirements (the 4 eyes principle), compliance with group and reporting standards.

The following are taken as allocable costs (in whole or in part):
- salaries (in part)
- regulatory fee (in part)
- accounting costs (in part),
- HR costs,
- administration costs (in part),
- audit,
- IT (core system maintenance)
- software licences,
- lease and premises.

The following are defined as allocable costs:
- fees to parties other than regulators,
- representation,
- marketing costs,
- car-related costs,
- all one-off costs such as – legal counselling, financial advisory, system development (conversion to EURO).

4. Significant accounting estimates and judgements (continued)

g) Pension insurance (continued)

Price Inflation – Indexation of Annuities (continued)

Further, allocable costs are divided into allocable costs for acquisition (acquisition costs) and regular allocable costs.

Risk adjustment (RA) – risk adjustment for non-financial risk

Risk adjustment for non-financial risk is the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts. The risks covered by risk adjustment for non-financial risk are insurance risk and other non-financial risks such as longevity risk and cost risk. Adjustment for non-financial risk reflects the estimated cost for which the Company could transfer the uncertainty associated with a non-financial risk to the other party. The Company estimates risk adjustment for non-financial risk using a technique identical to that used to create the risk margin in the standard formula in Solvency II to determine the maximum possible loss in a given confidence interval. Changes in risk adjustment for non-financial risk will be fully reflected in the result of insurance services.

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 38. *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)

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.

4. Significant accounting estimates and judgements (continued)

i) Classification of lease contracts (continued)

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, 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. *Materially significant accounting policies Leases*, 14. *Right of use assets* and 14.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 2023, which is consistent with the assessment made for 2022.

k) Investment in subsidiaries

The management considers that investments in subsidiaries in unconsolidated financial statements are stated at no higher than the recoverable amount. For details see Note 12. *Investment in subsidiaries*.

4.a) Reclassification

Reclassification of comparative periods

During the year 2023, the Bank reclassified certain items in note 11a) Investment securities measured at amortized cost and note 30 Income from fees and commissions. The reclassification was conducted in accordance with the Company's accounting policies. As there was no change in measurement, these reclassifications had no impact on profit or loss, other comprehensive income and retained earnings.

Previously published amounts as of 31 December 2022 were reclassified as presented below.

(all amounts are shown in EUR millions)

4.a) Reclassification (continued)

Reclassification of comparative periods (continued)

Investment securities measured at amortised cost

	Group 2022	Reclassification	Group amended report 2022	Bank 2022	Reclassification	Bank amended report 2022
Investment securities measured at amortised cost						
Debt securities:						
- Domestic government bonds, listed	375	-	375	302	-	302
- Corporate bonds, listed	3	-	3	3	-	3
- Foreign banks bonds, listed	162	(127)	35	140	(113)	27
- Foreign government bonds, listed	35	127	162	27	113	140
- Foreign corporate bonds	20	-	20	17	-	17
	595	**-**	**595**	**489**	**-**	**489**
Impairment allowance	-	-	-	-	-	**-**
Total investment securities measured at amortised cost	**595**	**-**	**595**	**489**	**-**	**489**

Fee and commission income

	Group 2022	Reclassification	Group amended report 2022	Bank 2022	Reclassification	Bank amended report 2022
Domestic payment transactions	20	-	20	20	-	20
Investment management, custody and consultancy fees	23	-	23	2	-	2
Credit cards	59	-	59	59	-	59
Foreign payment transactions	8	-	8	8	-	8
Partial recharge of credit insurance costs	4	4	8	4	4	8
Guarantees and letter of credits	4	-	4	4	-	4
Loans and accounts administration fee	9	-	9	9	-	9
Arrangement Fee	-	1	1	-	1	1
Other fees and commission income	9	(5)	4	8	(5)	3
	136	**-**	**136**	**114**	**-**	**114**

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).

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 bankrupcy
- 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,
- 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

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

Biodiversity loss (continued)

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
- 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 31/12/2023 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 *Materially 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 (for the year 2022).
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 EUR millions)

5. Segment reporting (continued)

2023

Group	Corporate	Retail	Treasury	Asset and Liability Management	Asset management	Unallocated	Total
Net interest income	71	78	2	25	5	-	181
Net fee and commission income	26	27	(1)	-	21	-	73
Trading and other income	14	3	16	(1)	(1)	2	33
Operating income	**111**	**108**	**17**	**24**	**25**	**2**	**287**
Operating expenses	(43)	(65)	(15)	(1)	(21)	(15)	(160)
Impairment losses	(3)	15	-	-	-	1	13
Provisions for liabilities and charges	(1)	(5)	(2)	-	-	(2)	(10)
Profit/(loss) before tax	**64**	**53**	**-**	**23**	**4**	**(14)**	**130**
Income tax expense	-	-	-	-	-	(25)	(25)
Profit/(loss) for the year	**64**	**53**	**-**	**23**	**4**	**(39)**	**105**
Segment assets	1,354	1,922	349	2,720	240	-	6,585
Unallocated assets	-	-	-	-	-	416	416
Total assets	**1,354**	**1,922**	**349**	**2,720**	**240**	**416**	**7,001**
Segment liabilities	2,576	2,633	78	117	222	689	6,315
Equity	-	-	-	-	-	686	686
Total equity and liabilities	**2,576**	**2,633**	**78**	**117**	**222**	**1,375**	**7,001**

(all amounts are shown in EUR millions)

5. Segment reporting (continued)

2022

Group	**Corporate**	**Retail**	**Treasury**	**Asset and Liability Management**	**Asset management**	**Shared services**	**Un-allocated**	**Total**
Net interest income	30	71	7	5	4	-	-	117
Net fee and commission income	24	25	2	(1)	18	-	-	68
Trading and other income	22	6	4	7	42	2	5	88
Operating income	**76**	**102**	**13**	**11**	**64**	**2**	**5**	**273**
Operating expenses	(29)	(59)	(22)	(1)	(64)	(4)	(24)	(203)
Impairment losses	1	(9)	-	-	-	-	-	(8)
Provisions for liabilities and charges	-	(1)	-	-	-	-	(7)	(8)
Profit/(loss) before tax	**48**	**33**	**(9)**	**10**	**-**	**(2)**	**(26)**	**54**
Income tax expense							(9)	(9)
Profit/(loss) for the year	**48**	**33**	**(9)**	**10**	**-**	**(2)**	**(35)**	**45**
Segment assets	1,216	1,768	331	2,699	223	-	-	6,237
Unallocated assets	-	-	-	-	-	-	440	440
Total assets	**1,216**	**1,768**	**331**	**2,699**	**223**	**-**	**440**	**6,677**
Segment liabilities	2,445	2,641	121	105	221	-	411	5,944
Equity	-	-	-	-	-	-	733	733
Total equity and liabilities	**2,445**	**2,641**	**121**	**105**	**221**	**-**	**1,144**	**6,677**

(all amounts are shown in EUR millions)

6. Financial assets and financial liabilities

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

2023	Notes	Mandatory at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortised cost	Total carrying amount
Group							
Financial assets							
Cash and current accounts with banks	7	-	-	-	-	315	315
Financial assets at fair value through profit or loss	8	31	180	-	-	-	211
Fair value hedge	8a	20	-	-	-	-	20
Placements with and loans to other banks	9	-	-	-	-	1,447	1,447
Loans and advances to customers	10	-	-	-	-	3,476	3,476
Investment securities		-	-	-	-	-	-
- measured at amortized cost	11a	-	-	-	-	1,136	1,136
- measured at fair value	11b	-	-	158	1	-	159
Other financial assets		-	-	-	-	12	12
Total financial assets		**51**	**180**	**158**	**1**	**6,386**	**6,776**
Financial liabilities							
Financial liabilities at fair value through profit or loss	19	24	-	-	-	-	24
Deposits from banks	20	-	-	-	-	31	31
Deposits from companies and other similar entities	21	-	-	-	-	2,395	2,395
Deposits from individuals	22	-	-	-	-	2,633	2,633
Borrowings	23	-	-	-	-	227	227
Debt securities issued	24	-	-	-	-	518	518
Lease liabilities	14a	-	-	-	-	7	7
Other financial liabilities		-	-	-	-	34	34
Subordinated liabilities	27	-	-	-	-	61	61
Total financial liabilities		**24**	**-**	**-**	**-**	**5,906**	**5,930**

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 EUR millions)

6. Financial assets and financial liabilities (continued)

2022	Notes	Mandatory at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortised cost	Total carrying amount
Group							
Financial assets							
Cash and current accounts with banks	7	-	-	-	-	1,805	1,805
Financial assets at fair value through profit or loss	8	34	98	-	-	-	132
Fair value hedge	8a	32	-	-	-	-	32
Placements with and loans to other banks	9	-	-	-	-	254	254
Loans and advances to customers	10	-	-	-	-	3,179	3,179
Investment securities							
- measured at amortized cost	11a	-	-	-	-	595	595
- measured at fair value	11b	-	-	434	2	-	436
Other financial assets		-	-	-	-	13	13
Total financial assets		**66**	**98**	**434**	**2**	**5,846**	**6,446**
Financial liabilities							
Financial liabilities at fair value through profit or loss	19	9	-	-	-	-	9
Deposits from banks	20	-	-	-	-	108	108
Deposits from companies and other similar entities	21	-	-	-	-	2,354	2,354
Deposits from individuals	22	-	-	-	-	2,639	2,639
Borrowings	23	-	-	-	-	184	184
Debt securities issued	24	-	-	-	-	261	261
Lease liabilities	14a	-	-	-	-	7	7
Other financial liabilities		-	-	-	-	30	30
Subordinated liabilities	27	-	-	-	-	20	20
Total financial liabilities		**9**	**-**	**-**	**-**	**5,603**	**5,612**

(all amounts are shown in EUR millions)

6. Financial assets and financial liabilities (continued)

2023	Notes	Mandatory at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortised cost	Total carrying amount
Bank							
Financial assets							
Cash and current accounts with banks	7	-	-	-	-	310	310
Financial assets at fair value through profit or loss	8	18	13	-	-	-	31
Fair value hedge	8a	20	-	-	-	-	20
Placements with and loans to other banks	9	-	-	-	-	1,445	1,445
Loans and advances to customers	10	-	-	-	-	3,343	3,343
Investment securities							
- measured at amortized cost	11a	-	-	-	-	1,081	1,081
- measured at fair value	11b	-	-	158	1	-	159
Other financial assets	-	-	-	-	-	8	8
Total financial assets	**-**	**38**	**13**	**158**	**1**	**6,187**	**6,397**
Financial liabilities							
Financial liabilities at fair value through profit or loss	19	23	-	-	-	-	23
Deposits from banks	20	-	-	-	-	31	31
Deposits from companies and other similar entities	21	-	-	-	-	2,432	2,432
Deposits from individuals	22	-	-	-	-	2,633	2,633
Borrowings	23	-	-	-	-	87	87
Debt securities issued	24	-	-	-	-	518	518
Lease liabilities	14a	-	-	-	-	6	6
Other financial liabilities	-	-	-	-	-	33	33
Subordinated liabilities	27	-	-	-	-	61	61
Total financial liabilities		**23**	**-**	**-**	**-**	**5,801**	**5,824**

(all amounts are shown in EUR millions)

6. Financial assets and financial liabilities (continued)

2022	Notes	Mandatory at FVTPL	Designated at FVTPL	FVOCI – debt instruments	FVOCI – equity instruments	Amortised cost	Total carrying amount
Bank							
Financial assets							
Cash and current accounts with banks	7	-	-	-	-	1,801	1,801
Financial assets at fair value through profit or loss	8	20	20	-	-	-	40
Fair value hedge	8a	32	-	-	-	-	32
Placements with and loans to other banks	9	-	-	-	-	250	250
Loans and advances to customers	10	-	-	-	-	3,092	3,092
Investment securities							
- measured at amortized cost	11a	-	-	-	-	489	489
- measured at fair value	11b	-	-	434	2	-	436
Other financial assets		-	-	-	-	9	9
Total financial assets		**52**	**20**	**434**	**2**	**5,641**	**6,149**
Financial liabilities							
Financial liabilities at fair value through profit or loss	19	9	-	-	-	-	9
Deposits from banks	20	-	-	-	-	108	108
Deposits from companies and other similar entities	21					2,397	2,397
Deposits from individuals	22	-	-	-	-	2,639	2,639
Borrowings	23	-	-	-	-	73	73
Debt securities issued	24	-	-	-	-	261	261
Lease liabilities	14a	-	-	-	-	19	19
Other financial liabilities		-	-	-	-	28	28
Subordinated liabilities	27	-	-	-	-	20	20
Total financial liabilities		**9**	**-**	**-**	**-**	**5,545**	**5,554**

(all amounts are shown in EUR millions)

7. Cash and current accounts with banks

	Group 2023	Group 2022	Bank 2023	Bank 2022
Cash in hand	210	177	210	177
Giro account with the Croatian National Bank	82	1,593	82	1,593
Current accounts with other banks				
- with parent bank	5	20	5	20
- with other Raiffeisen Bank International AG ("the RBI") group banks*	8	6	3	2
- with other banks	10	9	10	9
	315	**1,805**	**310**	**1,801**
Impairment allowance	-	-	-	-
	315	**1,805**	**310**	**1,801**

*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

(all amounts are shown in EUR millions)

8. Financial assets at fair value through profit or loss

	Group 2023	Group 2022	Bank 2023	Bank 2022
Financial assets mandatorily measured at fair value through profit or loss:				
Non derivative trading assets:				
Debt securities:				
- Securities issued by companies, listed	2	1	2	1
- Treasury bills issued by the Ministry of Finance	-	5	-	5
	2	**6**	**2**	**6**
Derivative trading assets:				
Positive fair value of OTC derivative instruments	10	12	9	12
	10	**12**	**9**	**12**
Non-trading financial assets mandatorily measured at fair value through profit or loss				
Equity securities	3	2	3	2
Debt securities	4	-	4	-
Investments in investment funds managed by related persons and third parties	12	14	-	-
	19	**16**	**7**	**2**
Total financial assets mandatorily measured at fair value through profit or loss	**31**	**34**	**18**	**20**
Financial assets designated at option fair value through profit or loss				
-				
Non derivative trading assets:				
- Domestic government bonds, listed	60	43	-	-
- Foreign government bonds, listed	57	-	-	-
-Bonds issued by banks, listed	24	11	5	6
- Securities issued by companies, listed	11	19	8	14
- Treasury bills issued by the Ministry of Finance	23	9	-	-
- Treasury bills issued by foreign countries	5	16	-	-
Total financial assets at fair value option through profit or loss	**180**	**98**	**13**	**20**
	211	**132**	**31**	**40**

Investment in treasury bills issued by the Republic of Croatia Ministry of Finance in the amount of EUR 23 million (2022: EUR 9 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 EUR millions)

8.a) Fair value hedge derivatives

	Group 2023	Group 2022	Bank 2023	Bank 2022
Interest rate swap	20	32	20	32
	20	**32**	**20**	**32**

9. Placements with and loans to other banks

	Group 2023	Group 2022	Bank 2023	Bank 2022
Loans and deposits at amortised cost				
- Loans	40	70	39	70
- Deposits with CNB	1,405	179	1,405	179
- Deposits with other banks	2	5	1	1
	1,447	**254**	**1,445**	**250**
Impairment allowance	-	-	-	-
	1,447	**254**	**1,445**	**250**

(all amounts are shown in EUR millions)

10. Loans and advances to customers

	Group 2023	Group 2022	Bank 2023	Bank 2022
Loans to companies and similar entities at amortised cost				
- denominated in domestic currency	1,099	261	1,140	280
- denominated in or linked to foreign currency	29	781	29	822
Loans to state and public sector at amortised cost				
- denominated in domestic currency	298	2	298	2
- denominated in or linked to foreign currency	-	269	-	269
Loans to individuals at amortised cost				
- denominated in domestic currency	1,990	813	1,990	813
- denominated in or linked to foreign currency	1	1,037	1	1,037
Finance lease receivables	176	149	-	-
	3,593	**3,312**	**3,458**	**3,223**
Impairment allowance	(117)	(133)	(115)	(131)
	3,476	**3,179**	**3,343**	**3,092**

(all amounts are shown in EUR millions)

10. Loans and advances to customers (continued)

The following tables below present the exposures across credit risk levels at 31 December 2023 and 31 December 2022:

Group 2023	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers					
Low risk	1,224	91	-	1	1,316
Medium risk	1,137	325	-	4	1,466
High risk	90	175	-	3	268
Default	-	-	72	23	95
Without rating	395	34	17	2	448
Balance sheet impairment allowance	(16)	(33)	(57)	(11)	(117)
Carrying amount	**2,830**	**592**	**32**	**22**	**3,476**

Group 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers					
Low risk	1,260	24	-	1	1,285
Medium risk	1,086	208	-	4	1,298
High risk	62	146	-	2	210
Default	-	-	79	26	105
Without rating	392	5	15	2	414
Balance sheet impairment allowance	(18)	(39)	(63)	(13)	(133)
Carrying amount	**2,782**	**344**	**31**	**22**	**3,179**

(all amounts are shown in EUR millions)

10. Loans and advances to customers (continued)

Bank **2023**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers					
Low risk	1,214	91	-	1	1,306
Medium risk	1,066	323	-	4	1,393
High risk	83	174	-	3	260
Default	-	-	69	23	92
Without rating	355	33	17	2	407
Balance sheet impairment allowance	(16)	(33)	(55)	(11)	(115)
Carrying amount	**2,702**	**588**	**31**	**22**	**3,343**

Bank **2022**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans and advances to customers					
Low risk	1,269	24	-	1	1,294
Medium risk	1,040	206	-	4	1,250
High risk	57	142	-	2	201
Default	-	-	74	26	100
Without rating	357	4	15	2	378
Balance sheet impairment allowance	(18)	(39)	(61)	(13)	(131)
Carrying amount	**2,705**	**337**	**28**	**22**	**3,092**

(all amounts are shown in EUR millions)

10. Loans and advances to customers (continued)

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

Group 2023	Stage 1	Stage 2	Stage 3	POCI	Total
On-balance sheet exposure					
Gross carrying amount at 1 January	**2,800**	**383**	**94**	**35**	**3,312**
New approvals	1,151	94	7	4	**1,256**
Derecognition (not including write-off)	(402)	(57)	(10)	(2)	**(471)**
Transfer to Stage 1	72	(69)	(3)	-	**-**
Transfer to Stage 2	(371)	377	(6)	-	**-**
Transfer to Stage 3	(14)	(13)	27	-	**-**
POCI	-	-	(1)	1	**-**
Amounts recovered during the year	(390)	(90)	(18)	(5)	**(503)**
Write-offs	-	-	(1)	-	**(1)**
At 31 December	**2,846**	**625**	**89**	**33**	**3,593**

Group 2022	Stage 1	Stage 2	Stage 3	POCI	Total
On-balance sheet exposure					
Gross carrying amount at 1 January	**2,318**	**539**	**112**	**40**	**3,009**
New approvals	1,337	92	7	5	**1,441**
Derecognition (not including write-off)	(553)	(68)	(10)	(1)	**(632)**
Transfer to Stage 1	263	(254)	(8)	(1)	**-**
Transfer to Stage 2	(158)	165	(7)	-	**-**
Transfer to Stage 3	(16)	(19)	35	-	**-**
POCI	-	-	(1)	1	**-**
Amounts recovered during the year	(392)	(71)	(22)	(8)	**(493)**
Write-offs	-	(1)	(12)	(1)	**(14)**
Effects of exchange differences (Note 32)	1	-	-	-	**1**
At 31 December	**2,800**	**383**	**94**	**35**	**3,312**

(all amounts are shown in EUR millions)

10. Loans and advances to customers (continued)

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

Bank **2023**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
On-balance sheet exposure					
Gross carrying amount at 1 January	**2,723**	**376**	**89**	**35**	**3,223**
New approvals	1,068	93	7	4	**1,172**
Derecognition (not including write-off)	(421)	(57)	(10)	(2)	**(490)**
Transfer to Stage 1	69	(66)	(3)	-	**-**
Transfer to Stage 2	(369)	375	(6)	-	**-**
Transfer to Stage 3	(13)	(13)	26	-	**-**
POCI	-	-	(1)	1	**-**
Amounts recovered during the year	(339)	(87)	(15)	(5)	**(446)**
Write-offs	-	-	(1)	-	**(1)**
At 31 December	**2,718**	**621**	**86**	**33**	**3,458**

Bank **2022**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
On-balance sheet exposure					
Gross carrying amount at 1 January	**2,203**	**510**	**102**	**40**	**2,855**
New approvals	1,271	91	8	5	**1,375**
Derecognition (not including write-off)	(481)	(57)	(8)	(1)	**(547)**
Transfer to Stage 1	257	(248)	(8)	(1)	**-**
Transfer to Stage 2	(156)	163	(7)	-	**-**
Transfer to Stage 3	(15)	(20)	35	-	**-**
POCI	-	-	(1)	1	**-**
Amounts recovered during the year	(357)	(62)	(20)	(8)	**(447)**
Write-offs	-	(1)	(12)	(1)	**(14)**
Effects of exchange differences (Note 32)	1	-	-	-	**1**
At 31 December	**2,723**	**376**	**89**	**35**	**3,223**

(all amounts are shown in EUR millions)

10. Loans and advances to customers (continued)

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

Group 2023	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Allowance for expected credit losses at 1 January	**18**	**39**	**63**	**13**	**133**
Derecognition (not including write-offs)	(2)	(6)	(7)	(1)	**(16)**
Transfer to Stage 1	6	(4)	(2)	-	**-**
Transfer to Stage 2	(3)	7	(4)	-	**-**
Transfer to Stage 3	-	(2)	2	-	**-**
POCI	-	-	-	-	**-**
Increase/release of provisions (Note 35)	(3)	(1)	7	(1)	**2**
Write-offs	-	-	(2)	-	**(2)**
At 31 December	**16**	**33**	**57**	**11**	**117**

Group 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Allowance for expected credit losses at 1 January	**9**	**32**	**77**	**18**	**136**
Derecognition (not including write-offs)	(1)	(3)	(6)	-	(10)
Transfer to Stage 1	20	(14)	(6)	-	-
Transfer to Stage 2	(1)	5	(4)	-	-
Transfer to Stage 3	-	(3)	3	-	-
POCI	-	-	-	-	-
Increase/release of provisions (Note 35)	(9)	22	11	(4)	20
Write-offs	-	-	(12)	(1)	(13)
At 31 December	**18**	**39**	**63**	**13**	**133**

Bank 2023	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Allowance for expected credit losses at 1 January	**18**	**39**	**61**	**13**	**131**
Derecognition (not including write-offs)	(2)	(6)	(7)	(1)	(16)
Transfer to Stage 1	6	(4)	(2)	-	-
Transfer to Stage 2	(3)	7	(4)	-	-
Transfer to Stage 3	-	(2)	2	-	-
POCI	-	-	-	-	-
Increase/release of provisions (Note 35)	(3)	(1)	7	(1)	2
Write-offs	-	-	(2)	-	(2)
At 31 December	**16**	**33**	**55**	**11**	**115**

(all amounts are shown in EUR millions)

10. Loans and advances to customers (continued)

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

Bank **2022**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Allowance for expected credit losses at 1 January	**9**	**31**	**72**	**18**	**130**
Derecognition (not including write-offs)	(1)	(3)	(4)	-	(8)
Transfer to Stage 1	20	(14)	(6)	-	-
Transfer to Stage 2	(1)	6	(5)	-	-
Transfer to Stage 3	-	(3)	3	-	-
POCI	-	-	-	-	-
Increase/release of provisions	(9)	22	13	(4)	22
Write-offs	-	-	(12)	(1)	(13)
At 31 December	**18**	**39**	**61**	**13**	**131**

For additional reconciliation, Note 50. *Risk management*

During the year 2023, in the retail segment, the Bank implemented a new LGD and ELBE model (Expected Loss Best Estimate model) for cash loan exposures and exposure secured by residential real estate in retail, in accordance with the methodology approved by the Parent Company, where the values of the LGD and ELBE parameters on the basis of placements are assigned according to the categorized characteristics that are selected as significant for the observed portfolio. The assignment of categorized characteristics is carried out monthly based on the last available data of each exposure in default status.
In this way, the Bank recognized a total release of net EUR 24.8 million of provisions in the PI and Micro segment, while all other movements in provisions are the result of going concern, including regular annual updates of macroeconomic expectations, risk parameters and repayment of obligations.

Additionally, the Bank identified a part of the portfolio which it estimates to have a heightened credit risk from the aspect of the ESG risk or potentially increased burden of loan repayment due to higher inflation rate and rising interest rates, and thus transferred the identified portfolio to stage 2 and calculated lifetime losses for it in accordance with the IFRS9 methodology. Furthermore, for part of the exposure of cash and housing loans where the risk of over-indebtedness is higher, the Bank made as the post-model adjustment, or increase in the coverage percentages of individual placements by applying higher PD parameters in accordance with internal methodologies.

As for the segment of medium and large companies (Corporate), in the third quarter, the Bank has identified a part of the portfolio for which it estimates that there is an increased credit risk due to increased interest rates combined with the expected slowdown in clients' export activities because of the general decline in industrial production of our most important trading partners (primarily Germany) where it booked additional provisions in the amount of EUR 6,8 million. All other provisions movements are the result of regular portfolio movements which were generally characterised by releasing provisions due to good macroeconomic trends and collection of problem placements (recovery).

In the year 2022, the Bank realized profit of EUR 5.6 million (total received EUR 5.8 million, and of this, EUR 0.24 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 35).

Gross value of the sold placements was EUR 16 million (loans to customer and other receivables EUR 14.3 million and off-balance receivables of EUR 1.7 million). Loans to private individuals were EUR 13.9 million (on-balance receivables EUR 12.7 million and off-balance receivables EUR 1.2 million), and loans to other customers EUR 2.1 million (EUR 1.6 million on-balance and EUR 0.5 million off-balance receivables).

(all amounts are shown in EUR millions)

10. Loans and advances to customers (continued)

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

Net value of the sold on-balance placements of private individuals was EUR 0.6 million and placements of other customers EUR 0.1 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.

Group	2023 Total exposure	Impairment allowance	Collateral	2022 Total exposure	Impairment allowance	Collateral
Balance exposure for loans to customers						
Stage 1	1,977	7	2,208	1,412	5	2,211
Stage 2	426	24	740	223	22	415
Stage 3	56	29	91	62	33	101
	2,459	**60**	**3,039**	**1,697**	**60**	**2,727**

In the year 2023 unsecured gross exposure for loans to customer on Group level amounted to EUR 1,134 million (2022: EUR 1,615 million) and impairment allowances for unsecured exposures amounted to EUR 57 million (2022: EUR 73 million).

Bank	2023 Total exposure	Impairment allowance	Collateral	2022 Total exposure	Impairment allowance	Collateral
Balance exposure for loans to customers						
Stage 1	1,808	7	2,058	1,275	5	2,093
Stage 2	422	24	737	215	22	405
Stage 3	53	27	89	57	32	97
	2,283	**58**	**2,884**	**1,547**	**59**	**2,595**

In the year 2023 unsecured gross exposure for loans to customer for Bank amounted to EUR 1,175 million (2022: EUR 1,676 million) and impairment allowances for unsecured exposures amounted to EUR 57 million (2022: EUR 72 million).

(all amounts are shown in EUR millions)

10. Loans and advances to customers (continued)

The table below show the market value of collateral at 31 December 2023 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.
The market value of collateral is equal to book value.

Collateral	Group 2023	Group 2022	Bank 2023	Bank 2022
Commercial property	753	692	748	684
Cash deposits	20	26	20	26
Securities	-	-	-	-
Guarantees and similar instruments	204	170	204	170
Funds	-	-	-	-
Movable property	173	156	23	32
Other collateral types	23	24	23	24
Residential property	1,866	1,659	1,866	1,659
	3,039	**2,727**	**2,884**	**2,595**

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 effective interest rates. The receivables are secured by the underlying assets. Loans and advances to customers include the following finance lease receivables:

	Group 2023	Group 2022
Gross investment in finance leases	195	160
Deferred fee income	-	-
Unearned finance income	(19)	(11)
Net investment in finance leases	**176**	**149**
Impairment allowance	(2)	(2)
Net investment in finance leases	**174**	**147**

(all amounts are shown in EUR millions)

10. Loans and advances to customers (continued)

b) Finance lease receivables (continued)

The table below shows amounts of finance lease receivables.

	Group 2023	**Group 2022**
Up to 1 year	61	55
1 – 2 years	49	41
2 – 3 years	41	29
3 – 4 years	26	23
4 – 5 years	14	9
More than 5 years	4	3
Undiscounted lease payments	**195**	**160**
Less: unearned finance income	(19)	(11)
Present value of lease payments receivable	**176**	**149**
Impairment allowance	(2)	(2)
Net investment in the lease	**174**	**147**
Undiscounted lease payments analysed as:	195	160
Recoverable after 12 months	134	105
Recoverable within 12 months	61	55
Undiscounted lease payments analysed as:	174	147
Recoverable after 12 months	122	98
Recoverable within 12 months	52	49

(all amounts are shown in EUR millions)

11. a) Investment securities measured at amortized cost

	Group 2023	Group 2022	Bank 2023	Bank 2022
Investment securities measured at amortised cost				
Debt securities:				
- Domestic government bonds, listed	651	375	596	302
- Corporate bonds, listed	2	3	2	3
- Foreign banks bonds, listed	40	35	40	27
- Foreign government bonds, listed	278	162	278	140
- Foreign corporate bonds	17	20	17	17
-Treasury bills issued by Ministry of Finance	148	-	148	-
	1,136	**595**	**1,081**	**489**
Impairment allowance	-	-	-	-
Total investment securities measured at amortised cost	**1,136**	**595**	**1,081**	**489**

Foreign government bonds relate to securities issued by the Republic of Bulgaria the Republic of Lithuania, the Republic of Latvia, the Republic of Poland, the Republic of Slovenia and the United States of America.

(all amounts are shown in EUR millions)

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

	Group 2023	Group 2022	Bank 2023	Bank 2022
Debt securities:				
- Domestic government bonds, listed	111	211	111	211
- Bonds issued by banks, listed	18	59	18	59
- Bonds issued by companies, listed	10	10	10	10
- Foreign government bonds, listed	19	55	19	55
- Treasury bills issued by the Ministry of Finance	-	99	-	99
	158	**434**	**158**	**434**
Equity securities at fair value option:				
- not listed	1	2	1	2
	1	**2**	**1**	**2**
Total investment securities at fair value through other comprehensive income	**159**	**436**	**159**	**436**
of which impairment allowance	-	-	-	**-**

Government bonds issued by foreign governments consist of financial instruments issued by the, the Republic of Slovenia, the Republic of Ireland European Investment Bank (EIB) and European Financial Stability Fund (ESFS).

(all amounts are shown in EUR millions)

12. Investments in subsidiaries

The Bank had the following investments in subsidiaries, all incorporated in Croatia, as at 31 December 2023 and 31 December 2022:

		Ownership		Acquisition cost	Impairment allowance	Investments in subsidiaries	Acquisition cost	Impairment allowance	Investments in subsidiaries
	Nature of business	2023	2022	2023	2023	2023	2022	2022	2022
		%	%						
Investment in subsidiaries									
Direct holding									
Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	Pension fund management	100	100	19	-	19	19	-	19
Raiffeisen Consulting d.o.o.	Financial and consulting services	-	100	-	-	-	14	(2)	12
Raiffeisen Leasing d.o.o.	Leasing	100	100	8	-	8	8	-	8
Raiffeisen mirovinsko osiguravajuće društvo d.d.	Pension insurance	100	100	13	(12)	1	13	(12)	1
Total				**40**	**(12)**	**28**	**54**	**(14)**	**40**

Impairment allowances	**2023**	**2022**
At 1 January	**14**	**2**
Net charge recognised in profit or loss (Note 34)	-	12
Merger of related company	(2)	-
At 31 December	**12**	**14**

(all amounts are shown in EUR millions)

12. Investments in subsidiaries (continued)

Raiffeisen mirovinsko osiguravajuće društvo d.d.

Due to unfavourable macroeconomic situation in the year 2022, there has been a significant adverse impact on the parameters used to valuate the Bank's investments in the Raiffeisen mirovinsko osiguravajuće društvo d.d. because of which value impairment was conducted.
Based on the annual assessment on December 31, 2023 it was estimaed that additional impairment allowances of investments in Raiffeisen mirovinsko osiguravajuće društvo d.d. are not required.

Merger of the company Raiffeisen Consulting Ltd.

On 1 December 2023, the Bank merged with Raiffeisen Consulting, of which the regulator was notified. Status change in merging of the company with the Bank was executed by entry in the court registry of the Commercial Court in Zagreb, whereby the merger became legally valid. The merger was conducted as merger under joint control on the grounds of bookkeeping values, due to which there was no effect of merger.
The acquired assets and overtaken liabilities of Raiffeisen Consulting d.o.o. as on the date of merger, 1 December 2023, are declared in accordance with the Bank's methodology.

	Note	Carrying amount	Fair value adjustment	Total acquired
Asset				
Property and equipment	13a	28	-	28
Right of use assets	14	0,1	-	0,1
Deferred tax assets	16	-	-	-
Other assets	17	0,5	-	0,5
Total assets		**28,6**	**-**	**28,6**
Liabilities				
Borrowings		15,2	-	15,2
Supplier liabilities		0,2	-	0,2
Lease liabilities	14a	0,1	-	0,1
Other liabilities		0,1	-	0,1
Total liabilities		**15,6**	**-**	**15,6**
Equity				
Share capital	37	14	-	14
Retained loss		(1,4)	-	(1,4)
Profit for the year		0,4	-	0,4
Total equity		**13**	**-**	**13**
Total liabilities and equity		**28,6**	**-**	**28,6**

	Carrying amount
Investment in subsidiary	(14)
Impairment allowance	2
Share capital	14
Retained loss	(1,4)
Profit for the year	0,4
Impact on the Bank's retained earnings	**1**

(all amounts are shown in EUR millions)

13. a) Property and equipment

Group 2023	Land	Buildings	Equipment	Office furniture	Assets under construction	Total
Gross carrying amount						
At 1 January 2023	7	97	61	7	1	173
Reclassification from intangible assets	-	23	3	-	-	26
Additions	-	-	-	-	9	9
Disposals	-	(16)	(8)	(1)	-	(25)
Impairment	-	(4)	-	-	-	(4)
Transfer into use	-	2	6	-	(8)	-
At 31 December 2023	**7**	**102**	**62**	**6**	**2**	**179**
Accumulated depreciation and impairment allowance						
At 1 January 2023	-	35	38	5	-	78
Charge for the year (note 34a)	-	2	6	-	-	8
Reclassification from intangible assets	-	16	2	-	-	18
Disposals	-	(12)	(8)	-	-	(20)
At 31 December 2023	**-**	**41**	**38**	**5**	**-**	**84**
Carrying amount						
At 1 January 2023	**7**	**62**	**23**	**2**	**1**	**95**
At 31 December 2023	**7**	**61**	**24**	**1**	**2**	**95**

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

Impairment of investments in subsidiaries and other entities resulted from the merger of the company Raiffeisen Consulting Ltd. with the Bank, after which the building owned by the Company became the property of the Bank. An analysis of the Bank's investments in the building to date found that they do not increase the future economic benefits of the building and that it was necessary to carry out impairment in accordance with IAS 36. Until the moment of the merger the said investments were classified as leasehold improvements in accordance with IAS 16.

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

(all amounts are shown in EUR millions)

13. a) Property and equipment (continued)

Group 2022	Land	Buildings	Equipment	Office furniture	Assets under construction	Total
Gross carrying amount						
At 1 January 2022	7	97	56	7	1	168
Additions	-	-	-	-	9	9
Disposals	-	-	(3)	(1)	-	(4)
Transfer into use	-	-	8	1	(9)	-
At 31 December 2022	**7**	**97**	**61**	**7**	**1**	**173**
Accumulated depreciation and impairment allowance						
At 1 January 2022	-	33	36	6	-	75
Charge for the year (note 34a)	-	2	5	-	-	7
Disposals	-	-	(3)	(1)	-	(4)
At 31 December 2022	**-**	**35**	**38**	**5**	**-**	**78**
Carrying amount						
At 1 January 2022	**7**	**64**	**20**	**1**	**1**	**93**
At 31 December 2022	**7**	**62**	**23**	**2**	**1**	**95**

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

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

(all amounts are shown in EUR millions)

13. a) Property and equipment (continued)

Bank 2023	Land	Buildings	Equipment	Office furniture	Assets under construction	Total
Gross carrying amount						
At 1 January 2023	4	55	56	7	2	124
Reclassification from intangible assets		23	3	-	-	26
Additions	-	-	-	-	8	8
Merger of a related company	3	31	-	-	-	34
Disposals	-	(5)	(7)	(1)	-	(13)
Impairment	-	(4)	-	-	-	(4)
Transfer into use	-	2	5	1	(8)	-
At 31 December 2023	**7**	**102**	**57**	**7**	**2**	**175**
Accumulated depreciation						
At 1 January 2023	-	17	36	5	-	58
Charge for the year (note 34a)	-	2	5	-	-	7
Reclassification from intangible assets	-	16	3	-	-	19
Disposals	-	(1)	(7)	(1)	-	(9)
Merger of a related company	-	7	-	-	-	7
At 31 December 2023	**-**	**41**	**37**	**4**	**-**	**82**
Carrying amount						
At 1 January 2023	**4**	**38**	**20**	**2**	**2**	**66**
At 31 December 2023	**7**	**61**	**20**	**3**	**2**	**93**

Assets under construction relates to equipment at cost of EUR 2 million (2022: EUR 2 million)

There were no pledged assets in the current year (2022: nil).

There were no capitalised borrowing costs of acquisition of property and equipment during the year (2022: nil).

(all amounts are shown in EUR millions)

13. a) Property and equipment (continued)

Bank 2022	Land	Buildings	Equipment	Office furniture	Assets under construction	Total
Gross carrying amount						
At 1 January 2022	4	55	52	7	1	119
Additions	-	-	-	-	9	9
Disposals	-	-	(3)	(1)	-	(4)
Transfer into use	-	-	-	-	-	-
Transfer into use	-	-	7	1	(8)	-
At 31 December 2022	**4**	**55**	**56**	**7**	**2**	**124**
Accumulated depreciation						
At 1 January 2022	-	16	34	6	-	56
Charge for the year (note 34a)	-	1	5	-	-	6
Disposals	-	-	(3)	(1)	-	(4)
Merger of a related company	-	-	-	-	-	-
At 31 December 2022	**-**	**17**	**36**	**5**	**-**	**58**
Carrying amount						
At 1 January 2022	**4**	**39**	**18**	**1**	**1**	**63**
At 31 December 2022	**4**	**38**	**20**	**2**	**2**	**66**

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

(all amounts are shown in EUR millions)

13. b) Investment Property

Group 2023	Investment property
Gross carrying amount	
At 1 January 2023	19
Additions	1
Disposals	-
At 31 December 2023	**20**
Accumulated depreciation	
At 1 January 2023	1
Charge for the year (note 34a)	-
Disposals	-
At 31 December 2023	**1**
Carrying amount	
At 1 January 2023	**18**
At 31 December 2023	**19**

Group 2022	Investment property
Gross carrying amount	
At 1 January 2022	18
Additions	1
Disposals	-
At 31 December 2022	**19**
Accumulated depreciation	
At 1 January 2022	1
Charge for the year (note 34a)	-
Disposals	-
At 31 December 2022	**1**
Carrying amount	
At 1 January 2022	**17**
At 31 December 2022	**18**

13. b) Investment property (continued)

Raiffeisen Pension Insurance Company d.d. is the owner of 4 office buildings 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, 2/20 and 30/23)) and stated the cost of acquisition in amount of EUR 14 million in the assets covering insurance contract liabilities of the mandatory pension insurance.

The value of the buildings is based on the assessment of the authorised court appraiser from October 20, 2023. 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 EUR 14 million on 31 December 2023.

The current value of the remaining amount stated in the note in the amount of EUR 5 million, refers to the office building owed by Raiffeisen Leasing d.o.o. Investment property is valued by cost method. Management believes that the fair value of the property is close to its carrying amount.

(all amounts are shown in EUR millions)

13. c) Property and equipment under operating lease

Group 2023	**Buildings**	**Equipment**	**Motor vehicles and vessels**	**Assets under construction**	**Total**
Gross carrying amount					
At 1 January 2023	5	1	20	-	26
Additions	-	-	-	10	10
Transfer to Non-current assets held for sale	(3)	-	(1)	-	(4)
Disposals	(1)	-	(4)	-	(5)
Transfer into use	-	-	10	(10)	-
At 31 December 2023	**1**	**1**	**25**	**-**	**27**
Accumulated depreciation					
At 1 January 2023	1	1	6	-	8
Charge for the year (note 34a)	-	-	3	-	3
Disposals	(1)	-	(3)	-	(4)
At 31 December 2023	**-**	**1**	**6**	**-**	**7**
Carrying amount					
At 1 January 2023	**4**	**-**	**14**	**-**	**18**
At 31 December 2023	**1**	**-**	**19**	**-**	**20**

In the position „Transfer to Non-current assets held for sale" the motor vehicles and buildings that Raiffeisen leasing d.o.o. acquires after the ending of leasing contracts are shown. Motor vehicles in the amount of EUR 912 thousand were leased again, while the Company sold the amount of EUR 3.29 million from the inventory, which also includes real estate in the amount of EUR 2.97 million. At December 31, 2023 Raiffeisen leasing d.o.o. reports in the position non-current asset held for sale vehicles in the amount of EUR 71 thousands.

(all amounts are shown in EUR millions)

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

Group 2022	**Buildings**	**Equipment**	**Motor vehicles and vessels**	**Assets under construction**	**Total**
Gross carrying amount					
At 1 January 2022	5	1	18	-	24
Additions	-	-	-	6	6
Transfer to Non-current assets held for sale	-	-	(1)	-	(1)
Disposals	-	-	(3)	-	(3)
Transfer into use	-	-	6	(6)	-
At 31 December 2022	**5**	**1**	**20**	**-**	**26**
Accumulated depreciation					
At 1 January 2022	1	1	6	-	8
Charge for the year (note 34a)	-	-	3	-	3
Disposals	-	-	(3)	-	(3)
At 31 December 2022	**1**	**1**	**6**	**-**	**8**
Carrying amount					
At 1 January 2022	**4**	**-**	**12**	**-**	**16**
At 31 December 2022	**4**	**-**	**14**	**-**	**18**

(all amounts are shown in EUR millions)

14. Right of use assets

Group 2023	Buildings	Equipment	Total
Gross carrying amount			
At 1 January 2023	9	1	10
Additions	1	1	2
Disposals	-	-	-
At 31 December 2023	**10**	**2**	**12**
Accumulated depreciation			
At 1 January 2023	2	1	3
Charge for the year (note 34a)	2	-	2
Disposals	-	-	-
At 31 December 2023	**4**	**1**	**5**
Carrying amount			
At 1 January 2023	**7**	**-**	**7**
At 31 December 2023	**6**	**1**	**7**

(all amounts are shown in EUR millions)

14. Right of use assets (continued)

Group 2022	Buildings	Equipment	Total
Gross carrying amount			
At 1 January 2022	6	1	7
Additions	4	-	4
Disposals	(1)	-	(1)
At 31 December 2022	**9**	**1**	**10**
Accumulated depreciation			
At 1 January 2022	2	1	3
Charge for the year (note 34a)	1	-	1
Disposals	(1)	-	(1)
At 31 December 2022	**2**	**1**	**3**
Carrying amount			
At 1 January 2022	**4**	**-**	**4**
At 31 December 2022	**7**	**-**	**7**

(all amounts are shown in EUR millions)

14. Right of use assets (continued)

Bank **2023**	**Buildings**	**Equipment**	**Total**
Gross carrying amount			
At 1 January 2023	27	1	28
Additions	1	-	1
Disposals	(18)	-	(18)
At 31 December 2023	**10**	**1**	**11**
Accumulated depreciation			
At 1 January 2023	9	1	10
Charge for the year (note 34a)	3	-	3
Disposals	(8)	-	(8)
At 31 December 2023	**4**	**1**	**5**
Carrying amount			
At 1 January 2023	**18**	**-**	**18**
At 31 December 2023	**6**	**-**	**6**

(all amounts are shown in EUR millions)

14. Right of use assets (continued)

Bank 2022	Buildings	Equipment	Total
Gross carrying amount			
At 1 January 2022	24	1	25
Additions	4	-	4
Disposals	(1)	-	(1)
At 31 December 2022	**27**	**1**	**28**
Accumulated depreciation			
At 1 January 2022	7	1	8
Charge for the year (note 34a)	3	-	3
Disposals	(1)	-	(1)
At 31 December 2022	**9**	**1**	**10**
Carrying amount			
At 1 January 2022	**17**	**-**	**17**
At 31 December 2022	**18**	**-**	**18**

(all amounts are shown in EUR millions)

14. a) Lease liabilities

	Group 2023	Group 2022	Bank 2023	Bank 2022
Short-term lease liabilities	1	1	1	3
Long-term lease liabilities	6	6	5	16
	7	**7**	**6**	**19**

An overview of lease liabilities by residual maturity is presented in Note 50 Risk Management *Maturity Analysis*.

Amounts recognised in Statement of comprehensive income.

	Group 2023	Group 2022	Bank 2023	Bank 2022
Depreciation of right-of-use assets				
Buildings (Note 34a)	2	1	3	3
Equipment (Note 34a)	-	-	-	-
Interest payable (Note 29)	-	-	-	-
Expenses for short-term leases (Note 34)	-	-	-	-
Expenses for low value leases	1	1	1	1

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 34 *Operating expenses*).

(all amounts are shown in EUR millions)

15. Intangible assets

Group 2023	Goodwill	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount					
At 1 January 2023	4	26	130	2	162
Additions	-	-	-	16	16
Reclassification to tangible assets	-	(26)	-	-	(26)
Disposals	-	-	(21)	-	(21)
Impairment	-	-	(3)	-	(3)
Transfer into use	-	-	17	(17)	-
At 31 December 2023	**4**	**-**	**123**	**1**	**128**
Accumulated depreciation					
At 1 January 2023	-	18	89	-	107
Charge for the year (note 34a)	-	-	7	-	7
Reclassification to tangible assets	-	(18)	-	-	(18)
Disposals	-	-	(21)	-	(21)
At 31 December 2023	**-**	**-**	**75**	**-**	**75**
Carrying amount					
At 1 January 2023	**4**	**8**	**41**	**2**	**55**
At 31 December 2023	**4**	**-**	**48**	**1**	**53**

Assets under construction mainly comprise software in the process of installation in the amount of EUR 1 million (2022: EUR 2 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 EUR millions)

15. Intangible assets (continued)

Group 2022	Goodwill	Leasehold improvement	Software	Assets under construction	Total
Gross carrying amount					
At 1 January 2022	4	28	124	3	159
Additions	-	-	-	12	12
Disposals	-	(4)	(5)	-	(9)
Transfer into use	-	2	11	(13)	-
At 31 December 2022	**4**	**26**	**130**	**2**	**162**
Accumulated depreciation					
At 1 January 2022	-	21	85	-	106
Charge for the year (note 34a)	-	1	7	-	8
Disposals	-	(4)	(3)	-	(7)
At 31 December 2022	**-**	**18**	**89**	**-**	**107**
Carrying amount					
At 1 January 2022	**4**	**7**	**39**	**3**	**53**
At 31 December 2022	**4**	**8**	**41**	**2**	**55**

(all amounts are shown in EUR millions)

15. Intangible assets (continued)

Bank **2023**	**Leasehold improvement**	**Software**	**Assets under construction**	**Total**
Gross carrying amount				
At 1 January 2023	26	128	2	156
Additions	-	-	15	15
Disposals	-	(20)	-	(20)
Impairment	-	(3)	-	(3)
Reclassification to tangible assets	(26)	-	-	(26)
Transfer into use	-	16	(16)	-
At 31 December 2023	**-**	**121**	**1**	**122**
Accumulated depreciation				
At 1 January 2023	19	86	-	105
Charge for the year (note 34a)	-	7	-	7
Disposals	-	(20)	-	(20)
Reclassification to tangible assets	(19)	-	-	(19)
At 31 December 2023	**-**	**73**	**-**	**73**
Carrying amount				
At 1 January 2023	**7**	**42**	**2**	**51**
At 31 December 2023	**-**	**48**	**1**	**49**

Assets under construction mainly comprise software in the process of installation in the amount of EUR 1 million (2022: EUR 2 million).

(all amounts are shown in EUR millions)

15. Intangible assets (continued)

Bank **2022**	**Leasehold improvement**	**Software**	**Assets under construction**	**Total**
Gross carrying amount				
At 1 January 2022	28	118	3	149
Additions	-	-	12	12
Disposals	(4)	(5)	-	(9)
Merger of a related company	-	4	-	4
Transfer into use	2	11	(13)	-
At 31 December 2022	**26**	**128**	**2**	**156**
Accumulated depreciation				
At 1 January 2022	21	78	-	99
Charge for the year (note 34a)	1	7	-	8
Disposals	(3)	(3)	-	(6)
Merger of a related company	-	4	-	4
At 31 December 2022	**19**	**86**	**-**	**105**
Carrying amount				
At 1 January 2022	**7**	**40**	**3**	**50**
At 31 December 2022	**7**	**42**	**2**	**51**

(all amounts are shown in EUR millions)

16. 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 loss**		**Net gain/(loss) in other comprehensive income**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Deferred fee and commission income (Note 28;30)	1	1	-	-	-	-	-	-
Recognition of deferred tax assets at the level of the Group- impairment allowance of investment in subsidiaries (Note 34)	3	3	-	-	-	2	-	-
Unrealised gains on financial instruments at fair value through profit or loss (Note 32)	2	2	-	-	-	-	-	-
Other provisions (Note 25)	6	5	-	-	1	1	-	-
Deferred tax assets/(liabilities)	**12**	**11**	**-**	**-**	**1**	**3**	**-**	**-**
Unrealised gains on financial instruments at fair value through other comprehensive income	2	3	-	-	-	-	(2)	4
Net deferred tax assets	**14**	**14**	**-**	**-**	**1**	**3**	**(2)**	**4**

(all amounts are shown in EUR millions)

16. 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 loss**		**Net gain/(loss) in other comprehensive income**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Deferred fee and commission expense (Note 29;31)	-	-	-	-	-	-	-	-
Deferred fee and commission income (Note 28;30)	1	1	-	-	-	-	-	-
Unrealised gains on financial instruments at fair value through profit or loss (Note 32)	3	2	-	-	1	-	-	-
Impairment allowance of investments in subsidiaries (Note 34)	2	2	-	-	-	2	-	-
Other provisions (Note 25)	5	5	-	-	-	1	-	-
Deferred tax assets/(liabilities)	**11**	**10**	**-**	**-**	**1**	**3**	**-**	**-**
Unrealised gains on financial instruments at fair value through other comprehensive income	2	3	-	-	-	-	(2)	4
Net deferred tax assets	**13**	**13**	**-**	**-**	**1**	**3**	**(2)**	**4**

(all amounts are shown in EUR millions)

17. Other assets

	Group 2023	Group 2022	Bank 2023	Bank 2022
Receivables from credit and debit cards	8	12	8	12
Advances	8	8	5	6
Inventory and foreclosed assets	2	4	2	4
Accrued fees and commission	6	3	4	1
Accrued costs	3	3	3	2
Receivables from securities	1	2	1	2
Pre-tax receivables	1	4	-	-
Other	2	3	1	1
	31	**39**	**24**	**28**
Impairment allowance	(3)	(2)	(3)	(2)
	28	**37**	**21**	**26**

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

Movement in impairment allowance

Group	**Stage 1**	**Stage 3**	**Stage 3**	**2023 Total**	**Stage 1**	**Stage 3**	**Stage 3**	**2022 Total**
At 1 January	**-**	**-**	**2**	**2**	**-**	**-**	**2**	**2**
Provisions created during the year	-	-	1	1	-	-	1	1
Provisions released during the year	-	-	-	-	-	-	-	-
Net charge/(release) recognised in profit or loss (Note 35)	-	-	1	1	-	-	1	1
Write offs	-	-	-	-	-	-	(1)	(1)
At 31 December	**-**	**-**	**3**	**3**	**-**	**-**	**2**	**2**

(all amounts are shown in EUR millions)

17. Other assets (continued)

Bank	**Stage 1**	**Stage 3**	**Stage 3**	**2023 Total**	**Stage 1**	**Stage 3**	**Stage 3**	**2022 Total**
At 1 January	**-**	**-**	**2**	**2**	**-**	**-**	**2**	**2**
Provisions created during the year	-	-	1	1	-	-	-	-
Provisions released during the year	-	-	-	-	-	-	-	-
Net charge/(release) recognised in profit or loss (Note 35)	-	-	1	1	-	-	-	-
Write offs	-	-	-	-	-	-	-	-
At 31 December	**-**	**-**	**3**	**3**	**-**	**-**	**2**	**2**

18. Non-current assets held for sale and discontinued operations

	Group 2023	**Group 2022**	**Bank 2023**	**Bank 2022**
Property held for sale	1	-	1	-
	1	**-**	**1**	**-**

Real estate in the process of sale in 2023 referred to real estate, which the Bank took over, and for which during 2023 met the conditions for reclassification from Other assets (Note 17) to Non-current assets held for sale.

(all amounts are shown in EUR millions)

19. Financial liabilities at fair value through profit or loss

	Group 2023	Group 2022	Bank 2023	Bank 2022
Trading instruments				
Negative fair value of OTC derivative instruments	9	6	8	6
Negative fair value of OTC spot transactions	-	-	-	-
Hedging instruments				
Interest rate swap – hedge of the individual items	13	3	13	3
Interest rate swap – hedge accounting	2	-	2	-
	24	**9**	**23**	**9**

19. 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	
2023	Assets	Liabilities	Assets	Liabilities
Trading derivative instruments (Note 8)				
- FX forward contracts – OTC	227	159	5	3
- Cross Currency swap	1	1	-	-
- Interest rate swap contracts – OTC	149	240	5	6
- Futures	30	-	-	-
	407	**400**	**10**	**9**
Unsettled trading with currencies – OTC	**28**	**27**	**-**	**-**
Hedging derivative instruments (Note 8a)				
- Interest rate swap contracts - OTC				
Micro hedge	508	215	14	14
Portfolio hedge	198	31	6	1
	706	**246**	**20**	**15**

(all amounts are shown in EUR millions)

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

Group	**Notional amount**		**Fair value**	
2022	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Trading derivative instruments (Note 8)				
- FX forward contracts – OTC	321	381	2	3
- Interest rate swap contracts – OTC	85	99	10	3
Futures	7	-	-	-
	413	**480**	**12**	**6**
Unsettled trading with currencies – OTC	**-**	**-**	**-**	**-**
Hedging derivative instruments (Note 8a)				
- Interest rate swap contracts - OTC				
Micro hedge	266	200	30	3
Portfolio hedge	15	-	2	-
	281	**200**	**32**	**3**

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 and deposits to individuals.

Bank	**Notional amount**		**Fair value**	
2023	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Trading derivative instruments (Note 8)				
- FX forward contracts – OTC	227	159	5	3
- Cross Currency swap	1	1	-	-
- Interest rate swap contracts – OTC	149	161	4	5
	377	**321**	**9**	**8**
Unsettled trading with currencies – OTC	**28**	**27**	**-**	**-**
Hedging derivative instruments (Note 8a)				
- Interest rate swap contracts - OTC				
Micro hedge	508	215	14	14
Portfolio hedge	198	31	6	1
	706	**246**	**20**	**15**

(all amounts are shown in EUR millions)

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

Bank	**Notional amount**		**Fair value**	
2022	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Trading derivative instruments (Note 8)				
- FX forward contracts – OTC	321	381	2	3
- Interest rate swap contracts – OTC	85	99	10	3
	406	**480**	**12**	**6**
Unsettled trading with currencies – OTC	**-**	**-**	**-**	**-**
Hedging derivative instruments (Note 8a)				
- Interest rate swap contracts - OTC				
Micro hedge	266	200	30	3
Portfolio hedge	15	-	2	-
	281	**200**	**32**	**3**

(all amounts are shown in EUR millions)

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

Fair value hedge accounting – interest rate risk

Group/Bank

Hedging instrument

2023	Nominal value	Maturity		Fer value	
		1 - 5 years	Over 5 years	Asset	Liability
Micro hedge	723	508	215	6	11
Portfolio hedge	228	35	193	5	1
	951	**543**	**408**	**11**	**12**

Hedged instrument

2023		Accumulated amount of fair value hedge adjustment on the hedged item included in the carrying amount of the hedged item		
Line in the statement of financial position that include hedged item	Nominal value	Asset	Liability	Net gain / loss from hedge accounting
Micro hedge	**723**	**4**	**16**	**4**
Loans to customers	8	4	-	(3)
Investment securities measured at amortized cost	500	-	11	7
Debt securities issued	215	-	5	-
Portfolio hedge	**228**	**-**	**5**	**(4)**
Loans to customers	17	-		(4)
Deposits from individuals	211	-	5	-

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 3M EUR swap interest rate curve. 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.

(all amounts are shown in EUR millions)

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

Group/Bank

Hedging instrument

2022	Nominal value	Maturity		Fair value	
		1 - 5 years	Over 5 years	Asset	Liability
Micro hedge	466	200	266	28	2
Portfolio hedge	15	5	10	2	-
	481	**205**	**276**	**30**	**2**

Hedged instrument

2022		Accumulated amount of fair value hedge adjustment on the hedged item included in the carrying amount of the hedged item		
Line in the statement of financial position that include hedged item	Nominal value	Asset	Liability	Net gain / loss from hedge accounting
Micro hedge	**466**	**(2)**	**(16)**	**-**
Loans to customers	119	-	6	-
Investment securities measured at amortized cost	147	-	(22)	-
Debt securities issued	200	(2)	-	-
Portfolio hedge	**15**	**-**	**(2)**	**-**
Loans to customers	15	-	(2)	-

20. Deposits from banks

	Group 2023	**Group 2022**	**Bank 2023**	**Bank 2022**
Current accounts and demand deposits				
- from parent bank	6	38	6	38
- from RBI group banks other than parent bank	1	-	1	-
- from other banks	2	52	2	52
Time deposits	-	-	-	-
- from other banks	22	18	22	18
	31	**108**	**31**	**108**

(all amounts are shown in EUR millions)

21. Deposits from companies and other similar entities

	Group 2023	Group 2022	Bank 2023	Bank 2022
Current accounts and demand deposits	1,988	2,226	2,025	2,268
Time deposits	407	128	407	129
	2,395	**2,354**	**2,432**	**2,397**

22. Deposits from individuals

	Group 2023	Group 2022	Bank 2023	Bank 2022
Current accounts and demand deposits	2,003	2,100	2,003	2,100
Time deposits	630	539	630	539
	2,633	**2,639**	**2,633**	**2,639**

23. Borrowings

	Group 2023	Group 2022	Bank 2023	Bank 2022
From ultimate parent bank	59	48	14	15
From other banks	60	54	10	4
From HBOR	108	82	63	54
	227	**184**	**87**	**73**

Movements of outstanding borrowings

	Group 2023	Group 2022	Bank 2023	Bank 2022
At 1 January	184	144	73	60
New borrowings	2,052	2,304	1,980	2,240
Repayment of borrowings	(2,009)	(2,264)	(1,966)	(2,227)
Na dan 31. prosinca	**227**	**184**	**87**	**73**

Borrowings from parent bank and HBOR in 2023 also contain repurchase agreements (Note 46).
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 3.06% in 2023 and 0.53% in 2022.

(all amounts are shown in EUR millions)

24. Issued debt securities

	Group 2023	Group 2022	Bank 2023	Bank 2022
Debt securities issued	518	261	518	261
	518	**261**	**518**	**261**

On 04 November 2021, the Bank issued EUR 130 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%).

On June 5, 2023, through a public offering, the bank issued EUR 300 million (at 7.875% coupon) of unsubordinated and unsecured bonds qualifying as eligible liabilities, maturity date on June 5, 2027. The bonds are listed on the regulated market of the Luxembourg Stock Exchange.
Furthermore, on November 29, 2023, the Bank repaid EUR 63 million of bonds issued as part of the established program for issuing debt financial instruments on November 29, 2022.

(all amounts are shown in EUR millions)

25. 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 2023	**5**	**1**	**5**	**1**	**2**	**68**	**1**	**83**
Provision released during the year	(3)	-	-	(1)	-	(12)	-	(16)
Provision created during the year	-	5	-	-	-	21	-	26
(Credit)/charge recognised in profit or loss	*(3)*	*5*	*-*	*(1)*	*-*	*9*	*-*	*10*
Other changes	-	-	-	-	-	-	-	-
At 31 December 2023	**2**	**6**	**5**	**-**	**2**	**77**	**1**	**93**

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	**2**	**3**	**5**	**1**	**1**	**62**	**1**	**75**
Provision released during the year	-	(2)	-	-	-	-	-	(2)
Provision created during the year	3	-	-	-	1	6	-	10
(Credit)/charge recognised in profit or loss	*3*	*(2)*	*-*	*-*	*1*	*6*	*-*	*8*
Other changes	-	-	-	-	-	-	-	-
At 31 December 2022	**5**	**1**	**5**	**1**	**2**	**68**	**1**	**83**

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 EUR millions)

25. 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 2023	**6**	**2**	**5**	**-**	**2**	**66**	**-**	**81**
Provision released during the year	(4)	-	-	-	-	(12)	-	(16)
Provision created during the year	-	4	-	-	-	21	-	25
(Credit)/charge recognised in profit or loss	*(4)*	*4*	*-*	*-*	*-*	*9*	*-*	*9*
At 31 December 2023	**2**	**6**	**5**	**-**	**2**	**75**	**-**	**90**

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	**3**	**4**	**5**	**-**	**1**	**60**	**-**	**73**
Provision released during the year	-	(2)	-	-	-	-	-	(2)
Provision created during the year	3	-	-	-	1	6	-	10
(Credit)/charge recognised in profit or loss	*3*	*(2)*	*-*	*-*	*1*	*6*	*-*	*8*
At 31 december 2022	**6**	**2**	**5**	**-**	**2**	**66**	**-**	**81**

25. Provisions for liabilities and charges (continued)

At 31 December 2023 the Bank formed EUR 75 million of provisions for all court cases (2022: EUR 66 million). The Group formed provisions for litigations in the amount of EUR 77 million (2022: EUR 68 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 have initiated 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 until 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, therefore, the deadline for initiating individual court cases was also determined.

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. In December 2022, the Supreme Court announced the legal stand which did not passed the control of the Supreme Court's judicial records. When the competent courts issues a 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 EUR 9,290 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 2023.

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.

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.

(all amounts are shown in EUR millions)

26. a) Other liabilities

	Group 2023	Group 2022	Bank 2023	Bank 2022
Liabilities in respect of credit and debit card business	28	16	28	16
Liabilities in respect of advances received for insurance premium	12	8	-	-
Liabilities to employees	9	8	8	7
Liabilities to suppliers	8	9	7	8
Liabilities for loan prepayments	5	4	5	4
Management fee liabilities	3	3	-	-
Liabilities for inactive clients' funds	5	5	5	5
Deferred fee and commission income prepayments	8	8	7	8
Liabilities for VAT, tax and surtax on interest	1	2	1	2
Liabilities related to purchase securities	1	2	1	2
Other liabilities	6	3	4	2
	86	**68**	**66**	**54**

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

26. b) Insurance contract liabilities

	Group 2023	Group 2022
Insurance contract liabilities	225	210

Insurance contract liabilities 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 insurance contract liabilities is sufficient to meet all liabilities which may arise from the pension insurance contracts concluded by 31 December 2023.

(all amounts are shown in EUR millions)

26. b) Insurance contract liabilities (continued)

Insurance contract liabilities outstanding movement

Comparative data from 2022 are presented for publication purposes. However, due to the immaterial impact comparative data were not revised in the 2022 consolidated statements.

2023	Liabilities for remaining coverage (LRC)		Liabilities for incurred claims (LIC)	Total
	Excluding onerous contracts component	Onerous contract component		
Insurance Contract Liabilities (Opening balance)	210	-	-	210
Insurance revenue	(5)	-	-	(5)
Insurance service expenses	-	-	5	5
Investment components	(15)	-	15	-
Insurance Service Result	(19)	-	5	(14)
Insurance Finance Expense	2	-	-	2
Total Changes	(17)	-	19	2
Cash flows	25	-	(19)	6
Premium	25	-	-	25
Claims	-	-	(19)	(19)
Acquisition cost	-	-	-	-
Other	-	-	-	-
Insurance Contract Liabilities (Closing balance)	225	-	-	225

2022	Liabilities for remaining coverage (LRC)		Liabilities for incurred claims (LIC)	Total
	Excluding onerous contracts component	Onerous contract component		
Insurance Contract Liabilities (Opening balance)	199	-	-	199
Insurance revenue	(5)	-	-	(5)
Insurance service expenses	-	-	5	5
Investment components	(15)	-	15	-
Insurance Service Result	(20)	-	5	(15)
Insurance Finance Expense	-	-	-	-
Total Changes	(11)	-	20	9
Cash flows	31	-	(20)	11
Premium	25	-	-	25
Claims	-	-	(19)	(19)
Acquisition cost	-	-	-	-
Other	-	-	-	-
Insurance Contract Liabilities (Closing balance)	210	-	-	210

(all amounts are shown in EUR millions)

26. b) Insurance contract liabilities (continued)

Insurance contract liabilities outstanding movement

2023	Liabilities for remaining coverage (LRC)			Total
	Estimates of Present Value of Future Cash Flows (PVCF)	Risk adjustment (RA)	Contractual Service Margin (CSM)	
Insurance Contract Liabilities (Opening balance)	152	5	53	210
Changes that relate to current service	1	-	-	1
Changes that relate to future service	23	2	(26)	(1)
Changes that relate to past service	-	-	-	-
Insurance Service	24	2	(26)	-
Insurance Finance Expense	2	-	-	2
Total Changes	26	2	(26)	2
Cash flows	6	-	-	6
Premium	25	-	-	25
Claims	(19)	-	-	(19)
Acquisition cost	-	-	-	-
Other	-	-	-	-
Insurance Contract Liabilities (Closing balance)	191	7	27	225

2022	Liabilities for remaining coverage (LRC)			Total
	Estimates of Present Value of Future Cash Flows (PVCF)	Risk adjustment (RA)	Contractual Service Margin (CSM)	
Insurance Contract Liabilities (Opening balance)	180	-	19	199
Changes that relate to current service	-	-	-	-
Changes that relate to future service	(40)	5	35	-
Changes that relate to past service	-	-	-	-
Insurance Service	(40)	5	34	(1)
Insurance Finance Expense	-	-	-	-
Total Changes	(31)	5	34	8
Cash flows	11	-	-	11
Premium	31	-	-	31
Claims	(20)	-	-	(20)
Acquisition cost	-	-	-	-
Other	-	-	-	-
Insurance Contract Liabilities (Closing balance)	152	5	53	210

(all amounts are shown in EUR millions)

26. b) Insurance contract liabilities (continued)

Sensitivity analysis of changes in assumptions

The tables below show the sensitivity of surplus and CSM to changes in basic assumptions. The result is stable in all observed scenarios.
Business profitability is most sensitive to changes in cost assumptions, while the biggest risk for surplus is the scenario of extending longevity by 20%.

2023	MPI			
	OVPF	RA	Assets covering liabilities	Surplus
BE	164	6	191	21
Mortality +15%	159	6	191	26
Longevity +20%	173	6	191	12
Discount rate -100bps	183	6	206	17
Discount rate +100bps	148	6	178	24
Expense 10% + 1%infl	164	6	191	21

2023	OVPF			
	OVPF	RA	Assets covering liabilities	Surplus
BE	18	-	21	3
Mortality +15%	18	-	21	3
Longevity +20%	18	-	21	3
Discount rate -100bps	19	-	21	2
Discount rate +100bps	17	-	21	4
Expense 10% + 1%infl	18		21	3

2023	CVPF			
	CVPF	RA	Assets covering liabilities	Surplus
BE	2	-	3	1
Mortality +15%	2	-	3	1
Longevity +20%	2	-	3	1
Discount rate -100bps	2	-	3	1
Discount rate +100bps	2	-	3	1
Expense 10% + 1%infl	2	-	3	1

2023	COST			
	MPI	RA	Assets covering liabilities	Surplus
BE	7	1	10	2
Mortality +15%	7	1	10	2
Longevity +20%	7	1	10	2
Discount rate -100bps	8	1	11	2
Discount rate +100bps	6	1	9	2
Expense 10% + 1%infl	8	1	10	1

(all amounts are shown in EUR millions)

26. b) Insurance contract liabilities (continued)

CSM – Expected Profit Recognition

The table below shows the expected trend of future profit recognition – recognition of the CSM. The CSM from Mandatory Pension Insurance (MPI) and Voluntary Pension Insurance – Open-End Voluntary Pension Fund (OVPF) and Closed-End Voluntary Pension Fund (CVPF) represents a surplus of beneficiaries, still, it is not released but disposed of in accordance with statutory provisions.

2023

Years to profit recognition	Contractual Service Margin (CSM)				
	MPI	VPI - OVPF +SCP	VPI – CVPFS	Company	Total
0-1				0.1	0.1
1-3				0.2	0.2
3-5				0.2	0.2
5-10				0.4	0.4
10-15				0.4	0.4
15-20				0.4	0.4
>20				0.5	0.5
Total	**21.0**	**3.0**	**0.7**	**2.2**	**2.2**

2022

Years to profit recognition	Contractual Service Margin (CSM)				
	MPI	VPI - OVPF + SCP	VPI – CVPFS	Company	Total
0-1				0.1	0.1
1-3				0.2	0.2
3-5				0.2	0.2
5-10				0.4	0.4
10-15				0.4	0.4
15-20				0.4	0.4
>20				0.6	0.6
Total	**45.7**	**4.1**	**0.9**	**2.3**	**2.3**

(all amounts are shown in EUR millions)

27. Subordinated liabilities

The Bank used the subordinated loan to increase its regulatory capital.
At 31 December 2023 the Bank had two subordinated loans: in the amount of EUR 20 million loan with final maturity on 20 May 2029 and interest at 3M EURIBOR + 5.75% and other in the amount of EUR 40 million with the maturity on 15 May 2033 and interest at 3M EURIBOR + 7%. 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 2023	Group 2022	Bank 2023	Bank 2022
Subordinated loan	61	20	61	20
	61	**20**	**61**	**20**

28. Interest income

a) Analysis by product

	Group 2023	Group 2022	Bank 2023	Bank 2022
Interest income calculated using the effective interest method				
Placements with CNB	50	-	50	-
Placements with banks	5	2	5	2
Loans and advances to customers and similar entities	56	29	50	25
Loans and advances to individuals*	87	83	86	83
Financial instruments at fair value through other comprehensive income	2	3	2	3
Financial instruments at amortised cost	18	8	17	5
	218	**125**	**210**	**118**
Other interest income				
Derivative financial instruments	12	1	11	1
Other financial assets at fair value through profit or loss	7	3	4	1
Derivative financial instruments – hedge accounting	21	2	21	2
Financial assets measured mandatorily at fair value through profit or loss	-	-	-	-
	40	**6**	**36**	**4**
	258	**131**	**246**	**122**

* Interest income in the item "Loans to companies and similar entities" includes rental income under financial lease in the amount of EUR 7 million (2022: EUR 5 million).

(all amounts are shown in EUR millions)

28. Interest income (continued)

b) Analysis by source

	Group 2023	Group 2022	Bank 2023	Bank 2022
Interest income calculated using the effective interest rate method				
Companies	44	29	38	24
Individuals	87	83	86	83
State and the public sector	81	11	80	9
Banks and other financial institutions	6	2	6	2
	218	**125**	**210**	**118**
Other interest income				
Companies	7	1	7	1
State and the public sector	3	2	-	-
Banks and other financial institutions	30	3	29	3
	40	**6**	**36**	**4**
	258	**131**	**246**	**122**

(all amounts are shown in EUR millions)

29. Interest expense

a) Analysis by product

	Group 2023	Group 2022	Bank 2023	Bank 2022
Derivative financial instruments	10	1	10	1
Derivative financial instruments in fair value hedges	18	3	18	3
Deposits from banks	2	1	2	1
Debt securities issued	27	3	27	3
Deposits from companies and other similar entities	7	1	8	1
Deposits from individuals	2	1	2	1
Borrowings	6	1	2	1
Lease liabilities	-	-	-	-
Subordinated liabilities	5	3	5	3
	77	**14**	**74**	**14**

b) Analysis by recipient

	Group 2023	Group 2022	Bank 2023	Bank 2022
Companies	11	4	12	5
Individuals	2	1	2	1
State and the public sector	1	1	1	1
Banks and other financial institutions	63	8	59	7
	77	**14**	**74**	**14**

(all amounts are shown in EUR millions)

30. Fee and commission income

a) Analysis by product

	Group 2023	Group 2022	Bank 2023	Bank 2022
Domestic payment transactions	21	20	21	20
Investment management, custody and consultancy fees	24	23	2	2
Credit cards	34	59	34	59
Foreign payment transactions	6	8	6	8
Partial recharge of credit insurance costs *	6	8	6	8
Guarantees and letter of credits	5	4	5	4
Loans and accounts administration fee	14	9	14	9
Arrangement services	1	1	1	1
Other fees and commission income	5	4	4	3
	116	**136**	**93**	**114**

* The fees that the Bank receives for the sale of insurance products based on the Service Level Agreement between the Bank and the insurance company are included as well

b) Analysis by source

	Group 2023	Group 2022	Bank 2023	Bank 2022
Companies	62	61	41	39
Individuals	27	24	27	24
State and the public sector	3	1	1	1
Banks and other financial institutions	24	50	24	50
	116	**136**	**93**	**114**

(all amounts are shown in EUR millions)

31. Fee and commission expense

a) Analysis by product

	Group 2023	Group 2022	Bank 2023	Bank 2022
Credit card related charges	29	52	29	52
Domestic payment transactions	4	3	4	3
Partially rechargeable credit insurance costs	5	6	5	6
Guarantee expenses- securitization	2	-	2	-
Other fees and commission expense	3	7	1	2
	43	**68**	**41**	**63**

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 2023	Group 2022	Bank 2023	Bank 2022
Companies	36	63	34	58
Banks and other financial institutions	7	5	7	5
	43	**68**	**41**	**63**

(all amounts are shown in EUR millions)

32. Net gain/ (loss) on financial instruments at fair value and foreign exchange differences from translation of monetary assets and liabilities

	Group 2023	Group 2022	Bank 2023	Bank 2022
Gains less losses from trading financial instruments				
- Derivative financial instruments	(1)	18	1	14
	(1)	18	1	14
Gains less losses from financial assets mandatorily at fair value through profit or loss				
Unrealized gain/(loss) from sale:				
- equity securities	2	(2)	2	(2)
- Debt securities	4	-	4	-
- share in investment funds	-	1	-	-
	6	(1)	6	(2)
Gains less losses from financial assets designated at fair value through profit or loss				
Realised (loss) on disposal of:				
- debt securities	(4)	(9)	-	-
- share in investment funds	-	-	-	-
Unrealised gain/(loss) on:				
- debt securities	5	(12)	-	(2)
	1	(21)	-	(2)
Net gains / (losses) on financial assets at fair value through other comprehensive income	-	2	-	2
Net gain/ (loss) on financial instruments at fair value	**6**	**(2)**	**7**	**12**

(all amounts are shown in EUR millions)

32. Net gain/(loss) on financial instruments at fair value and foreign exchange differences from translation of monetary assets and liabilities (continued)

	Group 2023	Group 2022	Bank 2023	Bank 2022
Gains less losses arising from trading in foreign currencies	9	21	9	22
Gains less losses arising from revaluation of monetary assets and liabilities, which are not trading with securities				
- net loss on foreign exchange translation of assets and liabilities in foreign currency	(2)	(4)	(2)	(4)
- net gain on foreign exchange translation of assets and liabilities with foreign currency clause	-	3	-	3
Total foreign exchange differences	(2)	(1)	(2)	(1)
Net gain on trading and foreign exchange differences from translation of monetary assets and liabilities	**7**	**20**	**7**	**21**
	13	**18**	**14**	**33**

Net (loss) / gain from derivative instruments include net trading losses from interest rate and currency swaps, futures, forwards and forward rate agreements.

33. Other operating income

	Group 2023	Group 2022	Bank 2023	Bank 2022
Rental income from operating leases	4	4	-	-
Premium on pension insurance contracts	5	31	-	-
Dividend from subsidiaries	-	1	6	8
Profit from assets sale in operating lease	-	-	-	-
Other income	11	34	4	4
	20	**70**	**10**	**12**

Other revenues refer mostly to revenues from the sale of fixed assets, deferred revenue recognition based on the sale of the business segment to the parent company and revenues from rental of business premises. In the year 2022, the largest part, besides the mentioned revenues, referred to the effects of the insurance contract.

(all amounts are shown in EUR millions)

33. Other operating income (continued)

Income from pension insurance contracts

Group	2023	2022 IFRS 17 application	2022
Risk adjustment (RA)	-	-	-
Contractual Service Margin (CSM)	-	-	-
Present value of future cash flows	5	4	-
Premium income	-	-	31
	5	**4**	**31**

Retroactive application of IFRS 17 to obligations from pension contracts caused a reduction in income at 31 December 2022 from EUR 31 million to EUR 4 million. The reason for this is that according to IFRS 17, income is recognized over the life of the contract.

(all amounts are shown in EUR millions)

34. Operating expenses

	Group 2023	Group 2022	Bank 2023	Bank 2022
Personnel expenses	59	54	53	48
Insurance contract liabilities	3	23	-	-
Repayment of pension contract	5	19	-	-
IT expenses	16	24	15	23
Legal, advisory and audit expenses	10	10	10	9
REGOS, HANFA expenses	8	5	-	-
Office space expenses	6	6	7	7
Advertising, PR and promotional expenses	5	4	4	4
Communication expenses	4	4	4	4
Impairment of tangible and intangible assets	7	-	7	-
Resolution fund fee	-	1	-	1
Deposit insurance expense	2	3	2	3
Investment in subsidiaries - impairment allowance	-	-	-	12
Other administrative expenses	15	31	15	15
	140	**184**	**117**	**126**

Personnel expenses of the Group include EUR 9 million (2022: EUR 9 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 2023 the Group had 1,870 employees (2022: 1,857 employees).

Personnel expenses of the Bank include EUR 8 million (2022: EUR 8 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 2023 the Bank had 1,722 employees (2020: 1,689 employees).

Legal, advisory and audit expenses include fee for the statutory audit of the annual financial statements in the amount of EUR 424 thousand (2022: EUR 411 thousand) and other fees in the amount of EUR 75 thousand (2022: EUR 119 thousand).

Other administrative expenses refer 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 EUR millions)

34. Operating expenses (continued)

Repayment of pension contracts

Group	2023	2022 IFRS 17 application	2022
Pension insurance payments	4	3	-
Pension payments	1	1	19
One-off payments	-	-	-
	5	**4**	**19**

Retroactive application of IFRS 17 to obligations from pension contracts caused a reduction of expenses under insurance contracts from EUR 19 million to EUR 4 million. The reason for this is that according to IFRS 17, expenses are recognized over the life of the contract.

34. a) Depreciation

	Group 2023	Group 2022	Bank 2023	Bank 2022
Depreciation of property and equipment (Note 13a)	8	7	7	6
Depreciation of intangible assets (Note 15)	7	8	7	8
Depreciation of right of use assets (Note 14)	2	1	3	3
Depreciation of property and equipment under operating lease (Note 13c)	3	3	-	-
Depreciation of investment property (Note 13b)	-	-	-	-
	20	**19**	**17**	**17**

(all amounts are shown in EUR millions)

35. Impairment losses

	Group 2023	Group 2022	Bank 2023	Bank 2022
Cash and current accounts with banks (Note 7)	-	-	-	-
Placements with and loans to other banks (Note 9)	-	-	-	-
Loans and advances to customers	14	(8)	14	(9)
Investment securities at amortised cost (Note 11a)	-	-	-	-
Investment securities at fair value through other comprehensive income (Note 11b)	-	-	-	-
Other assets (Note 17)	(1)	-	(1)	-
	13	**(8)**	**13**	**(9)**
Hereof:				
Stage 1	5	10	5	10
Stage 2	7	(19)	7	(19)
Stage 3	(1)	(3)	(1)	(4)
POCI	2	4	2	4
	13	**(8)**	**13**	**(9)**

(all amounts are shown in EUR millions)

36. Income tax expense

	Group 2023	Group 2022	Bank 2023	Bank 2022
Recognised in profit or loss				
- Current tax expense	(26)	(11)	(23)	(10)
- Deferred taxes (Note 16)	1	2	1	3
Income tax expense	**(25)**	**(9)**	**(22)**	**(7)**
Profit before tax	**130**	**54**	**118**	**44**
Income tax at 18% (2022: 18%)	(23)	(10)	(21)	(8)
Non-deductible expenses	(2)	(1)	(2)	(1)
Tax incentives and tax-exempt income	-	2	1	2
Income tax expense	**(25)**	**(9)**	**(22)**	**(7)**
Effective tax rate	**19.54%**	**16.79%**	**18.85%**	**15.96%**

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 2023 one of the subsidiaries have gross tax losses in the amount of EUR 7 million (2022: EUR 8 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**	**Tax benefit**	**Gross tax losses**	**Tax benefit**
	2023	**2023**	**2022**	**2022**
31 December 2023	-	-	-	-
31 December 2024	-	-	-	-
31 December 2025	-	-	-	-
31 December 2026	-	-	-	-
31 December 2027	7	-	8	-
	7	**-**	**8**	**-**

The Law on Minimum Global Profit Tax, which fully transposed the provisions of the Council Directive EU 2022/2523 (Pillar II), rules on profit shifting were introduced in the Republic of Croatia at the beginning of 2024.
Pillar 2 provides for a global minimum tax rate of 15% for multinational corporate groups and large domestic groups whose aggregate revenues exceeded EUR 750 million in any two of the previous four years.
According to the analyses carried out so far, no effects of this Law are expected on the Bank and the Group.

(all amounts are shown in EUR millions)

36. Income tax expense (continued)

Bank

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

37. Share capital

Group and Bank	2023	2022
	Total shares	**Total shares**
Share capital	**481**	**481**
Nominal value per share	-	eur 132.72
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.
In the process of adjusting the Company's share capital, the General Assembly made a decision to replace 3,621,432 shares with a nominal amount of EUR 132.72 each (HRK 1,000) by shares without a nominal value.

38. Additional Tier 1 capital

On 4 March 2019, the Bank issued a EUR 40 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 presented this instrument in the financial statements within "other equity instruments" at the nominal kuna value (HRK 297 million), 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. The amount of EUR 39 million as of 12/31/2022. represents the recalculated amount of the nominal kuna value at the conversion rate. After the change of the functional currency additional Tier 1 capital is presented at historical cost of EUR 40 million. Payment of bond yields are presented through movements of equity and reserve.

39. Other reserves

Share premium

The share premium in amount of EUR 2 million (2022: EUR 2 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 EUR 23 million for the Group (2022: EUR 24 million), and for the Bank EUR 22 million (2022: EUR 23 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 for the Group and the Bank in amount of EUR (6) million (2022: EUR (14) 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.

40. Proposed dividend

Dividend payables are not accounted for until they have been ratified at the General Shareholders Meeting.

At the General Meeting held on 21 June 2023, a decision was adopted on dividend distribution from retained profit of previous financial years in the amount of EUR 120 million. The Bank will pay a portion of the net profit realized in the year 2023, less the amount on the basis of distribution for the instrument of Additional Tier 1 capital (AT1) in amount of EUR 5.4 million, as dividend to ordinary shareholders and allocate a portion to retained earnings.
During 2023 the subsidiaries proposed and paid EUR 6.3 million in dividends from retained earnings (2022: EUR 7.4 million).

41. Assets and liabilities from discontinued operation

In the year 2023, there was no divestment of affiliated companies.

(all amounts are shown in EUR millions)

42. 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.

43. 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 EUR	Group 2023	Group 2022
Net profit for the year attributable to owners of the parent	104,981,204	44,703,840
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 EUR (basic and diluted)	**28.99**	**12.34**

44. Cash and cash equivalents

	Note	Group 2023	Group 2022	Bank 2023	Bank 2022
Cash in hand	7	210	177	210	177
Giro account with the Croatian National Bank	7	82	1,593	82	1,593
Current accounts with other banks	7	23	35	18	31
Placements with and loans to other banks with original maturity up to three months		1,415	229	1,415	230
Impairment allowance		-	-	-	-
		1,730	**2,034**	**1,725**	**2,031**

(all amounts are shown in EUR millions)

45. 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:

	Note	Group 2023	Group 2022	Bank 2023	Bank 2022
Giro account with the Croatian National Bank	7	82	1,593	82	1,593
Deposits from the Croatian National Bank	9	1,405	179	1,405	179
Government bonds, direct exposure	8, 11a, 11b	822	630	707	513
Treasury bills issued by the Ministry of Finance	8, 11a, 11b	171	113	148	104
Loans and advances to customers	10	307	282	298	271
Provision for Stage 1 and 2		-	-	-	-
Borrowings		(108)	(70)	(63)	(41)
Deposits from the Republic of Croatia		(6)	(8)	(6)	(8)
		2,673	**2,719**	**2,571**	**2,611**

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 2023	Group 2022	Bank 2023	Bank 2022
Loans and advances to customers guaranteed by the State	65	25	65	25
Guarantees, letters of credit and undrawn lending facilities	20	-	20	-
	85	**25**	**85**	**25**

The total net direct and indirect on and off-balance-sheet exposure to Republic of Croatia represents 32% of the total assets and off-balance-sheet exposure of the Group (2022: 34%) and 32% of the total assets and off-balance-sheet exposure of the Bank (2022: 34%).

46. 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.

(all amounts are shown in EUR millions)

46. Repurchase and reverse repurchase agreements (continued)

Group/Bank	Fair value of underlying assets	Carrying amount of corresponding liabilities	Repurchase date	Repurchase price
2023				
Securities at fair value through profit or loss	41	39	January 2024	39
2022				
Securities at fair value through profit or loss	28	28	January 2023	28

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/Bank	Fair value of underlying assets	Carrying amount of corresponding assets	Repurchase date	Repurchase price
Loans and advances to customers				
2023	35	33	January/March 2024	33
2022	58	54	January/ February 2023	54

47. Commitments and contingent liabilities

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

	Group 2023	Group 2022	Bank 2023	Bank 2022
Guarantees	663	488	663	489
Letters of credit	14	16	14	16
Undrawn lending facilities	562	341	530	307
Other risk off-balance sheet items	422	539	422	539
	1,661	**1,384**	**1,629**	**1,351**

Other risk classic off-balance sheet items refer to unused credit limits and binding letters of intent.

(all amounts are shown in EUR millions)

47. Commitments and contingent liabilities (continued)

At 31 December 2023 the Bank recognised provisions for identified and unidentified losses arising from the issue of guarantees, letters of credits, undrawn lending commitments and other risk classic off balance sheet items, in the amount of EUR 13 million (2022: EUR 13 million), which are included in provisions for liabilities and charges (Note 25). Other risk classic off-balance sheet items include revolving loans and other credit limits.

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	**Total exposure**	**Impairment allowance**	**Collateral**	**Total exposure**	**Impairment allowance**	**Collateral**
Off balance sheet exposure						
Stage 1	1,222	1	309	992	1	232
Stage 2	79	1	6	76	2	9
Stage 3	7	5	4	7	5	2
	1,308	**7**	**319**	**1,075**	**8**	**243**

Bank	**Total exposure**	**Impairment allowance**	**Collateral**	**Total exposure**	**Impairment allowance**	**Collateral**
Off balance sheet exposure						
Stage 1	1,222	1	309	992	1	232
Stage 2	79	1	6	76	2	9
Stage 3	7	5	4	7	5	2
	1,308	**7**	**319**	**1,075**	**8**	**243**

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 2023 the total assets under custody held by the Group on behalf of customers were EUR 1,379 million (2022: EUR 1,029 million). Further, at 31 December 2023, the total assets of investment and pension funds managed by the Group amounted to EUR 6,338 million (2022: EUR 5,667 million).

(all amounts are shown in EUR millions)

48. Assets and liabilities managed on behalf of third parties (continued)

In 2023 the Group made income in the amount of EUR 24 million (2022: EUR 23 million) of fees on custody activities provided to companies, banks and individuals, and management of investment and pension funds.
At 31 December 2023 the Group and the Bank managed loans on behalf of third parties as follows:

Group/Bank	2023	2022
Assets		
- Loans to companies	54	70
Total assets	**54**	**70**
Liabilities		
- Financial institutions	54	70
Total liabilities	**54**	**70**

49. 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 2023	Group 2022	Bank 2023	Bank 2022
Interest, fee and commission income (Notes 28,30, 33)				
- Raiffeisen Leasing d.o.o.	-	-	1	-
- Raiffeisen consulting d.o.o.	-	-	-	1
- Raiffeisen mirovinsko društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	-	-	-	-
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	-	-
- Raiffeisen Invest d.o.o.	-	-	1	1
- Raiffeisenbank International (RBI)	33	5	32	5
	33	**5**	**34**	**7**

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.

(all amounts are shown in EUR millions)

49. Related party transactions (continued)

	Group 2023	Group 2022	Bank 2023	Bank 2022
Interest, fee and commission expense (Notes 29;31)				
- Raiffeisen consulting d.o.o.	-	-	-	-
- Raiffeisenbank International (RBI)	(33)	(8)	(31)	(7)
- Ukrainian Processing Centre PJSC	-	-	-	-
- Regional Card Processing Center s.r.o.	(3)	(2)	(3)	(2)
- Centralised Raiffeisen International Services&Payment S.R.L.	-	-	-	-
	(36)	**(10)**	**(34)**	**(9)**

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

	Group 2023	Group 2022	Bank 2023	Bank 2022
Trading and other income (Note 32;33)				
- Raiffeisen Leasing d.o.o.	-	-	-	-
- Raiffeisen stambena štedionica d.d.	-	-	-	(1)
- Raiffeisen mirovinsko društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	-	-	7	8
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	-	-
- Raiffeisen consulting d.o.o.	-	-	1	-
- Raiffeisen Invest d.o.o.	-	-	-	1
- Raiffeisenbank International (RBI)	(2)	(11)	-	(11)
	(2)	**(11)**	**8**	**(3)**

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

	Group 2023	Group 2022	Bank 2023	Bank 2022
Operating expenses (Note 34)				
- Raiffeisen Leasing d.o.o.	-	-	(1)	(1)
- Raiffeisen Consulting d.o.o.	-	-	(3)	(3)
- Raiffeisenbank International (RBI)	(6)	(8)	(6)	(8)
- RBI Retail Innovation GmbH, Wien (AT)	(1)	-	(1)	-
- Regional Card Processing Center s.r.o.	-	(1)	-	(1)
	(7)	**(9)**	**(11)**	**(13)**

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

(all amounts are shown in EUR millions)

49. Related party transactions (continued)

	Group 2023	Group 2022	Bank 2023	Bank 2022
Assets				
Current accounts and placements with banks (Notes 7 ; 9)				
- Raiffeisenbank International (RBI)	6	21	6	21
- Raiffeisenbank a.s.	-	-	-	-
-Raiffeisen Bank Zrt.	1	1	1	1
- Raiffeisen banka a.d.	1	1	1	1
	8	**23**	**8**	**23**
Loans to customers (Note 10)				
- Raiffeisen Consulting d.o.o.	-	-	-	16
- Raiffeisen Leasing d.o.o.	-	-	41	44
	-	**-**	**41**	**60**
Derivative financial assets (Note 8)				
- Raiffeisenbank International (RBI)	27	43	27	43
	27	**43**	**27**	**43**
Accrued income and other assets (Note 17)				
- Raiffeisen Leasing d.o.o.	-	-	1	1
- Raiffeisen consulting d.o.o.	-	-	-	11
- Raiffeisenbank International (RBI)	1	1	1	1
	1	**1**	**2**	**13**

(all amounts are shown in EUR millions)

49. Related party transactions (continued)

	Group 2023	Group 2022	Bank 2023	Bank 2022
Liabilities				
Deposits (Notes 21; 22)				
- Raiffeisen Leasing d.o.o.	-	-	17	12
- Raiffeisen društvo za upravljanje obveznim i dobrovoljnim mirovinskim fondovima d.d.	-	-	6	14
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	16	20
- Raiffeisen Invest d.o.o.	-	-	1	1
- Raiffeisenbank International (RBI)	6	50	6	50
- Raiffeisen Bank d.d. Bosna i Hercegovina	1	-	1	-
	7	**50**	**47**	**97**
Borrowings and subordinated liabilities (Note 23; 27)				
- Raiffeisenbank International (RBI)	119	68	74	35
	119	**68**	**74**	**35**
Derivative financial liabilities (Note 19)				
- Raiffeisenbank International (RBI)	19	6	18	6
	19	**6**	**18**	**6**
Accrued and other liabilities (Note 26a)				
- Raiffeisen Leasing d.o.o.	-	-	1	1
- Raiffeisen Consulting d.o.o.	-	-	-	12
- Raiffeisenbank International (RBI)	8	11	8	11
- RBI Retail Innovation GmbH, Wien (AT)	1	-	1	-
- Regional Card Processing Center s.r.o.	1	-	1	-
	10	**11**	**11**	**24**
Off-balance sheet exposure				
Derivative instruments	-	-	-	-
- Raiffeisen mirovinsko osiguravajuće društvo d.d.	-	-	10	-
- Raiffeisenbank International (RBI)	1,434	1,115	1,364	1,115
	1,434	**1,115**	**1,374**	**1,115**
Contingent Liabilities (Note 47)				
- Raiffeisen consulting d.o.o.	-	-	-	1
- Raiffeisen Leasing d.o.o.	-	-	1	1
- Raiffeisenbank International (RBI)	4	7	4	7
- Raiffeisen Bank Zrt.	1	-	1	-
- Raiffeisenbank a.s.	3	-	3	-
- Raiffeisen Bank Kosovo J.S.C.	1	1	1	1
	9	**8**	**10**	**10**

49. Related party transactions (continued)

2023	Exposure	Liabilities	Income	Expense
Group				
Key management personnel				
Short-term benefits (salaries and fees)	-	2	-	4
Long-term benefits	-	-	-	-
Loans and advances	2	-	-	-
Deposits	-	2	-	-
	2	**4**	**-**	**4**
Bank				
Key management personnel				
Short-term benefits (salaries and fees)	-	2	-	2
Long-term benefits	-	-	-	-
Loans and advances	-	-	-	-
Deposits	-	1	-	-
	-	**3**	**-**	**2**

2022	Exposure	Liabilities	Income	Expense
Group				
Key management personnel				
Short-term benefits (salaries and fees)	-	2	-	4
Long-term benefits	-	-	-	-
Loans and advances	2	-	-	-
Deposits	-	3	-	-
	2	**5**	**-**	**4**
Bank				
Key management personnel				
Short-term benefits (salaries and fees)	-	2	-	2
Long-term benefits	-	-	-	-
Loans and advances	-	-	-	-
Deposits	-	1	-	-
	-	**3**	**-**	**2**

Long-term benefits include variable benefits for identified staff.

In 2023 the Bank paid out to RBI a coupon on AT1 instrument in the amount of EUR 4 million (2022: EUR 4 million).

50. 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 ("Underwriting"), 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 collateral
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 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 the materiality threshold for credit obligations past due under Article 178 of Regulation (EU) No 575/2013 the materiality threshold is defined in such a way that the absolute component is set at EUR 500 for Non -Retail segment and EUR 100 for Retail segment and the relative component is set at 1% (applicable for all segments). 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 EUR millions)

50. 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 2023, due to the present market disruptions and unstable geo-political movements in certain 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.

Thus, during 2023, the Bank has identified part of retail portfolio where it estimates that increased credit risk has occurred due to increased debt burden of certain client (due to high inflation rates and increased interest rates), or environmental, social and governance risks (ESG), but which were still not recognized through implemented quantitative and qualitative indicators for increased credit risk. Therefore, the bank has migrated EUR 187 million of exposures in PI and EUR 19 million in Micro segment from stage 1 to stage 2, with respect to two above mentioned risks. Further, the Bank has, for part of such exposures, also increased coverage by applying higher PD parameters, through post-model adjustment.

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	Notes	Group 2023	Group 2022	Bank 2023	Bank 2022
Cash and accounts with banks (excluding cash in hand)	7	105	1,628	100	1,624
Financial assets at fair value through profit or loss	8	196	116	28	38
Fair value hedge	8a	20	32	20	32
Placements with and loans to other banks	9	1,447	254	1,445	250
Loans and advances to customers	10	3,476	3,179	3,343	3,092
Debt securities					
at amortized cost	11a	1,136	595	1,081	489
at fair value through other comprehensive	11b	158	433	158	433
Other financial assets	17	12	13	8	9
		6,550	**6,250**	**6,183**	**5,967**

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Credit risk (continued)

Quality analysis of credit portfolio

Group 2023	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Low risk	4,186	121	-	1	4,308
Medium risk	1,178	325	-	4	1,507
High risk	90	175	-	3	268
Default	-	-	72	23	95
Without rating	437	34	19	2	492
Balance sheet impairment allowance	(17)	(33)	(59)	(11)	(120)
Carrying amount	**5,874**	**622**	**32**	**22**	**6,550**

Group 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Low risk	4,124	25	-	1	4,150
Medium risk	1,229	208	-	4	1,441
High risk	61	146	-	2	209
Default	-	-	81	26	107
Without rating	456	5	15	2	478
Balance sheet impairment allowance	(19)	(39)	(64)	(13)	(135)
Carrying amount	**5,851**	**345**	**32**	**22**	**6,250**

Bank 2023	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Low risk	3,983	121	-	1	4,105
Medium risk	1,081	323	-	4	1,408
High risk	83	174	-	3	260
Default	-	-	70	23	93
Without rating	382	33	18	2	435
Balance sheet impairment allowance	(17)	(33)	(57)	(11)	(118)
Carrying amount	**5,512**	**618**	**31**	**22**	**6,183**

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Credit risk (continued)

Quality analysis of credit portfolio (continued)

Bank **2022**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Low risk	4,052	24	-	1	4,077
Medium risk	1,053	205	-	4	1,262
High risk	57	142	-	2	201
Default	-	-	76	26	102
Without rating	437	4	15	2	458
Balance sheet impairment allowance	(18)	(39)	(63)	(13)	(133)
Carrying amount	**5,581**	**336**	**28**	**22**	**5,967**

Group **2023**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Off - balance sheet exposure					
Low risk	781	42	-	-	823
Medium risk	475	37	-	-	512
High risk	16	12	-	-	28
Default	-	-	7	-	7
Without rating	14	276	1	-	291
Balance sheet impairment allowance	(2)	(6)	(5)	-	(13)
Carrying amount	**1,284**	**361**	**3**	**-**	**1,648**

Group **2022**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Off - balance sheet exposure					
Low risk	688	13	-	-	701
Medium risk	326	52	-	-	378
High risk	8	11	-	-	19
Default	-	-	7	-	7
Without rating	278	-	1	-	279
Balance sheet impairment allowance	(6)	(2)	(5)	-	(13)
Carrying amount	**1,294**	**74**	**3**	**-**	**1,371**

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Credit risk (continued)

Quality analysis of credit portfolio (continued)

Bank **2023**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Off - balance sheet exposure					
Low risk	761	42	-	-	803
Medium risk	467	37	-	-	504
High risk	14	12	-	-	26
Default	-	-	7	-	7
Without rating	13	275	1	-	289
Balance sheet impairment allowance	(2)	(6)	(5)	-	(13)
Carrying amount	**1,253**	**360**	**3**	**-**	**1,616**

Bank **2022**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Off - balance sheet exposure					
Low risk	675	13	-	-	688
Medium risk	310	51	-	-	361
High risk	5	11	-	-	16
Default	-	-	8	-	8
Without rating	277	-	1	-	278
Balance sheet impairment allowance	(6)	(2)	(5)	-	(13)
Carrying amount	**1,261**	**73**	**4**	**-**	**1,338**

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, which was merged with the bank in the last quarter, and since then the mentioned operations have been carried out by Real Estate Management and Business Support.

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 EUR millions)

50. 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 2023 and 31 December 2022 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 2023**	**Group 2022**	**Bank 2023**	**Bank 2023**
Commercial property	863	882	857	875
Cash deposits	29	37	29	37
Securities	-	-	-	-
Guarantees and similar instruments	373	317	373	317
Movable property	181	179	31	55
Other type of collateral	39	-	39	-
Residential property	1,874	1,735	1,874	1,735
	3,359	**3,150**	**3,203**	**3,019**

The table shows the exposure of the Bank and the Group at 31 December 2023 and 31 December 2022 that were rated by external rating agencies

External rating – balance and off-balance sheet exposure	**Group 2023**	**Group 2022**	**Bank 2023**	**Bank 2022**
A	39	18	4	4
A-	73	83	62	83
A+	126	30	125	30
AA	26	16	15	10
AA-	23	31	11	31
AA+	78	62	77	62
AAA	36	70	35	70
B	-	9	-	9
B+	7	-	7	-
BB+	1	4	1	4
BBB	32	7	32	7
BBB-	15	13	13	13
BBB+	1,295	1,002	1,151	871
Unrated	6,447	6,275	6,266	6,111
	8,198	**7,620**	**7,799**	**7,305**

Source: Standard&Poor's

(all amounts are shown in EUR millions)

50. 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

LTV	Group 2023	Group 2022	Bank 2023	Bank 2022
0	9	0	9	0
<40%	151	118	151	118
40%-60%	200	139	200	139
60%-80%	336	157	336	157
80%-90%	202	280	202	280
>90%	88	177	88	177
n/a	13	51	13	51
	999	**922**	**999**	**922**

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 EUR millions)

50. 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 2023	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Without delay	5,664	492	14	18	**6,188**
Delay <30 days	210	123	7	3	**343**
Delay >30 days	-	7	11	1	**19**
	5,874	**622**	**32**	**22**	**6,550**

Group 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Without delay	5,806	271	16	20	**6,113**
Delay <30 days	45	69	6	2	**122**
Delay >30 days	-	5	10	-	**15**
	5,851	**345**	**32**	**22**	**6,250**

Bank 2023	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Without delay	5,304	488	13	18	**5,823**
Delay <30 days	208	123	7	3	**341**
Delay >30 days	-	7	11	1	**19**
	5,512	**618**	**31**	**22**	**6,183**

Bank 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance sheet exposure					
Without delay	5,478	264	13	20	**5,775**
Delay <30 days	103	67	6	2	**178**
Delay >30 days	-	5	9	-	**14**
	5,581	**336**	**28**	**22**	**5,967**

(all amounts are shown in EUR millions)

50. 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 2023 and 31 December 2022 is presented below:

Group 2023	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
On balance exposure					
Gross book value at 01 January	**5,870**	**384**	**96**	**35**	**6,385**
New Approvals	3,382	104	7	4	3,497
Derecognition (does not include write-off)	(2,607)	(57)	(11)	(2)	(2,677)
Transfer to Stage 1	72	(69)	(3)	-	-
Transfer to Stage 2	(390)	396	(6)	-	-
Transfer to Stage 3	(14)	(13)	27	-	-
POCI	-	-	(1)	1	-
Amounts recovered during the year	(419)	(90)	(16)	(5)	(530)
Write-off	(3)	-	(2)	-	(5)
Effects of exchange differences	-	-	-	-	-
At 31 December	**5,891**	**655**	**91**	**33**	**6,670**

Group 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
On balance exposure					
Gross book value at 01 January	**4,928**	**539**	**114**	**40**	**5,621**
New Approvals	2,974	93	8	5	3,080
Derecognition (does not include write-off)	(1,013)	(68)	(11)	(1)	(1,093)
Transfer to Stage 1	263	(254)	(8)	(1)	-
Transfer to Stage 2	(158)	165	(7)	-	-
Transfer to Stage 3	(16)	(19)	35	-	-
POCI	-	-	(1)	1	-
Amounts recovered during the year	(1,109)	(71)	(22)	(8)	(1,210)
Write-off	-	(1)	(12)	(1)	(14)
Effects of exchange differences	1	-	-	-	1
At 31 December	**5,870**	**384**	**96**	**35**	**6,385**

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Credit risk (continued)

Bank 2023	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
On balance exposure					
Gross book value at 01 January	**5,599**	**375**	**91**	**35**	**6,100**
New Approvals	3,269	104	7	4	3,384
Derecognition (does not include write-off)	(2,635)	(57)	(11)	(2)	(2,705)
Transfer to Stage 1	69	(66)	(3)	-	-
Transfer to Stage 2	(389)	395	(6)	-	-
Transfer to Stage 3	(14)	(13)	27	-	-
POCI	-	-	(1)	1	-
Amounts recovered during the year	(367)	(87)	(14)	(5)	(473)
Write-off	(3)	-	(2)	-	(5)
Effects of exchange differences	-	-	-	-	-
At 31 December	**5,529**	**651**	**88**	**33**	**6,301**

Bank 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
On balance exposure					
Gross book value at 01 January	**4,588**	**508**	**104**	**40**	**5,240**
New Approvals	2,903	91	8	5	3,007
Derecognition (does not include write-off)	(903)	(57)	(8)	(1)	(969)
Transfer to Stage 1	257	(247)	(8)	(1)	1
Transfer to Stage 2	(156)	163	(7)	-	-
Transfer to Stage 3	(15)	(19)	35	-	1
POCI	-	-	(1)	1	-
Amounts recovered during the year	(1,075)	(62)	(20)	(8)	(1,165)
Write-off	(1)	(2)	(12)	(1)	(16)
Effects of exchange differences	1	-	-	-	1
At 31 December	**5,599**	**375**	**91**	**35**	**6,100**

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Credit risk (continued)

Group 2023	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Expected credit losses at 01 January	**19**	**39**	**64**	**13**	**135**
Derecognition (does not include write-off)	(2)	(6)	(7)	(1)	(16)
Transfer to Stage 1	6	(4)	(2)	-	-
Transfer to Stage 2	(3)	7	(4)	-	-
Transfer to Stage 3	(1)	(2)	3	-	-
POCI	-	-	-	-	-
Increase/(decrease) of impairment allowance	(2)	(1)	7	(1)	3
Write-off	-	-	(2)	-	(2)
Effects of exchange differences	-	-	-	-	-
At 31 December	**17**	**33**	**59**	**11**	**120**

Group 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Expected credit losses at 01 January	**10**	**32**	**78**	**18**	**138**
Derecognition (does not include write-off)	(1)	(3)	(6)	-	(10)
Transfer to Stage 1	20	(14)	(6)	-	-
Transfer to Stage 2	(1)	5	(4)	-	-
Transfer to Stage 3	-	(3)	3	-	-
POCI	-	-	-	-	-
Increase/(decrease) of impairment allowance	(9)	22	13	(4)	22
Write-off	-	-	(14)	(1)	(15)
Effects of exchange differences	-	-	-	-	-
At 31 December	**19**	**39**	**64**	**13**	**135**

Bank 2023	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Expected credit losses at 01 January	**18**	**39**	**63**	**13**	**133**
Derecognition (does not include write-off)	(2)	(6)	(7)	(1)	(16)
Transfer to Stage 1	6	(4)	(2)	-	-
Transfer to Stage 2	(3)	7	(4)	-	-
Transfer to Stage 3	-	(2)	2	-	-
POCI	-	-	-	-	-
Increase/(decrease) of impairment allowance	(2)	(1)	7	(1)	3
Write-off	-	-	(2)	-	(2)
Effects of exchange differences	-	-	-	-	-
At 31 December	**17**	**33**	**57**	**11**	**118**

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Credit risk (continued)

Bank 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Expected credit losses at 01 January	**9**	**31**	**74**	**18**	**132**
Derecognition (does not include write-off)	(1)	(3)	(4)	-	(8)
Transfer to Stage 1	20	(14)	(6)	-	-
Transfer to Stage 2	(1)	6	(5)	-	-
Transfer to Stage 3	-	(3)	3	-	-
POCI	-	-	-	-	-
Increase/(decrease) of impairment allowance	(9)	22	14	(4)	23
Write-off	-	-	(13)	(1)	(14)
Effects of exchange differences	-	-	-	-	-
At 31 December	**18**	**39**	**63**	**13**	**133**

The above table is in connection to Note 35 Impairment losses, as follows: in the table, total release of impairment loss of the Group of EUR 13 million (Bank: EUR 13 million) (Note 35) is the sum of rows charge (release) of provisions of EUR 3 million (Bank: EUR 3 million) and derecognition – not including write-offs (Group: EUR (16) million and Bank: EUR (16) million).
The above table for the year 2022 is in connection to Note 35 Impairment losses, as follows: in the table, total impairment loss of the Group of EUR 8 million (Bank: EUR 8 million) (Note 35) is the sum of rows charge (release) of provisions of EUR 22 million (Bank: EUR 23 million) and derecognition – not including write-offs (Group: EUR 10 million and Bank: EUR 8 million). Additionally, also the amount of EUR 4,4 million for the Group (Bank: EUR 4,4 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 tables present gross exposures and allowance for expected loan losses at 31 December 2023 and 31 December 2022 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.

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Credit risk (continued)

An overview of restructured balance sheet exposures by portfolio segment and by restructuring at 31 December 2023 and 31 December 2022 is given below:

Group

Amount of balance sheet exposures with forbearance measures

		2023				2022
	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	29	5	34	34	5	39
Companies and similar entities	9	13	22	22	19	41
	38	**18**	**56**	**56**	**24**	**80**

Bank

Amount of balance sheet exposures with forbearance measures

		2023				2022
	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	29	5	34	34	5	39
Companies and similar entities	9	12	21	21	15	36
	38	**17**	**55**	**55**	**20**	**75**

At 31 December 2023, the Bank's total non-performing loans amounted to EUR 129 million (2022: EUR 135 million) out of a total exposure of EUR 7,930 million (2022: EUR 7,451 million). Loan loss provisions were formed in the amount of EUR 73 million (2022: EUR 81 million) covering 57 percent (2022: 60 percent) of non-performing loans.
At the Group level, non-performing loans totalled EUR 132 million (2022: EUR 139 million) out of a total exposure of EUR 8,331 million (2022: EUR 7,769 million) of total placements. Loan loss provisions were formed in the amount of EUR 75 million (2022: HRK 82 million), covering 57 percent (2022: 59 percent) of non-performing loans.

(all amounts are shown in EUR millions)

50. 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:

	2023 Group		2022 Group		2023 Bank		2022 Bank	
	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure	Off-balance sheet exposure	Balance sheet exposure	Off-balance sheet exposure
Geographic region:								
Croatia	6,125	1,623	5,934	1,346	5,837	1,591	5,692	1,314
Other EU	448	23	362	24	367	23	319	23
Non EU	97	15	89	14	97	15	89	14
	6,670	**1,661**	**6,385**	**1,384**	**6,301**	**1,629**	**6,100**	**1,351**
Impairment allowance	(120)	(13)	(135)	(13)	(118)	(13)	(133)	(13)
	6,550	**1,648**	**6,250**	**1,371**	**6,183**	**1,616**	**5,967**	**1,338**

Concentration of credit risk by industry:

	Group 2023 %	Group 2022 %	Bank 2023 %	Bank 2022 %
Individuals	27	27	28	28
Financial services	21	28	22	28
Trade	9	10	9	8
Central and local government	17	12	15	12
Construction	5	4	5	5
Food and drink industry	2	2	2	2
Non-metal industry	4	3	4	3
Electronics	2	2	2	2
Wood and paper industry	1	-	1	1
Craft and services	9	9	9	9
Other business activities	3	3	3	2
Total credit risk	**100**	**100**	**100**	**100**

(all amounts are shown in EUR millions)

50. 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	Total exposure	Impairment allowances	2023 Net exposure	Total exposure	Impairment allowances	2022 Net exposure
Stage 1	7,177	19	7,158	7,170	25	7,145
Stage 2	1,022	39	983	460	41	419
Stage 3	99	64	35	104	69	35
POCI	33	11	22	35	13	22
	8,331	**133**	**8,198**	**7,769**	**148**	**7,621**

Bank Stage	Total exposure	Impairment allowances	2023 Net exposure	Total exposure	Impairment allowances	2022 Net exposure
Stage 1	6,784	19	6,765	6,866	24	6,842
Stage 2	1,017	39	978	450	41	409
Stage 3	96	62	34	100	68	32
POCI	33	11	22	35	13	22
	7,930	**131**	**7,799**	**7,451**	**146**	**7,305**

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.

(all amounts are shown in EUR millions)

50. 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%).

	31 December 2023	31 December 2022
Liquidity coverage ratio (LCR)	**266%**	**239%**
Liquidity buffer	2,836	2,612
Net cash outflows	1,067	1,095

LCR on a consolidated basis at 31 December 2023 was 268%.

	31 December 2023	31 December 2022
Net stable funding ratio (NSFR)	**180%**	**185%**
Requested funding sources	2,886	2,697
Available funding sources	5,192	5,001

NSFR on consolidated level amounts 181% as of 31 December 2023.

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 2023 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 1,500 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.

	2023			2022		
	7 days	**30 days**	**1 year**	**7 days**	**30 days**	**1 year**
Liquidity gap (GC)	2,467	2,397	2,952	2,270	2,166	1,825

50. 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 May 2023 Bank issued MREL eligible bond with total notional amount of EUR 300 million with the maturity 2027 and in November repaid EUR 63 million with maturity 2024, maintaining strong liquidity position.

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 3.37% at 31 December 2023.
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 2023and 31 December 2022is presented in the tables below:

The items with an undefined maturity date are included in the category over 5 years,. 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 EUR millions)

50. Risk Management (continued)

Liquidity risk (continued)

Maturity analysis (continued)

Group 2023	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and current accounts with banks	315	-	-	-	-	315
Financial assets at fair value through profit or loss	29	7	32	37	106	211
Fair value hedge derivatives	20	-	-	-	-	20
Placements with and loans to other banks	1,417	-	-	30	-	1,447
Loans and advances to customers	214	131	583	1,617	931	3,476
Investment securities measured at amortized cost	20	9	193	362	552	1,136
Investment securities at fair value through other comprehensive income	1	14	30	77	37	159
Property and equipment	-	-	-	-	95	95
Investment property	-	-	-	-	19	19
Property and equipment within operating lease	-	-	-	-	20	20
Right of use assets	-	-	1	5	1	7
Intangible assets	-	-	-	-	53	53
Deferred tax assets	-	-	-	13	1	14
Other assets	20	1	3	1	3	28
Non-current assets held for sale	-	-	1	-	-	1
Total assets	**2,036**	**162**	**843**	**2,142**	**1,818**	**7,001**
Liabilities, capital and reserves	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss	24	-	-	-	-	24
Deposits from banks	31	-	-	-	-	31
Deposits from companies and other similar entities	2,383	-	6	3	3	2,395
Deposits from individuals	2,616	-	2	10	5	2,633
Borrowings	56	9	42	115	5	227
Debt securities issued	-	-	14	504	-	518
Provisions for liabilities and charges	-	-	6	87	-	93
Tax liabilities	-	-	15	-	-	15
Lease liabilities	-	-	1	4	2	7
Other liabilities	78	-	5	3	-	86
Insurance contract liabilities	3	6	22	56	138	225
Subordinated liabilities	-	1	-	-	60	61
Total equity attributable to owners of the parent	-	-	-	-	686	686
Total liabilities and equity	**5,191**	**16**	**113**	**782**	**899**	**7,001**
Maturity gap	**(3,155)**	**146**	**730**	**1,360**	**919**	**-**

(all amounts are shown in EUR millions)

50. 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	1,805	-	-	-	-	1,805
Financial assets at fair value through profit or loss	32	20	80	-	-	132
Fair value hedge derivatives	32	-	-	-	-	32
Placements with and loans to other banks	234	-	-	20	-	254
Loans and advances to customers	115	155	520	1,504	885	3,179
Investment securities measured at amortized cost	130	116	230	30	89	595
Investment securities at fair value through other comprehensive income	33	141	260	-	2	436
Property and equipment	-	-	-	-	95	95
Investment property	-	-	-	-	18	18
Property and equipment within operating lease	-	-	-	-	18	18
Right of use assets	-	-	1	4	2	7
Intangible assets	-	-	-	-	55	55
Other assets	27	-	5	1	4	37
Deferred tax assets	-	-	-	13	1	14
Total assets	**2,408**	**432**	**1,096**	**1,572**	**1,169**	**6,677**
Liabilities, capital and reserves						
Financial liabilities at fair value through profit or loss	9	-	-	-	-	9
Deposits from banks	108	-	-	-	-	108
Deposits from companies and other similar entities	2,344	-	3	5	2	2,354
Deposits from individuals	2,625	1	2	8	3	2,639
Borrowings	30	9	43	94	8	184
Debt securities issued	-	-	-	261	-	261
Provisions for liabilities and charges	-	-	7	76	-	83
Tax liabilities	-	-	1	-	-	1
Lease liabilities	-	-	1	4	2	7
Other liabilities	61	-	4	3	-	68
Insurance contract liabilities	3	6	20	52	129	210
Subordinated liabilities	-	-	-	-	20	20
Total equity attributable to owners of the parent	-	-	-	-	733	733
Total liabilities and equity	**5,180**	**16**	**81**	**503**	**897**	**6,677**
Maturity gap	**(2,772)**	**416**	**1,015**	**1,069**	**272**	**-**

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Liquidity risk (continued)

Maturity analysis (continued)

Bank 2023	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets						
Cash and current accounts with banks	310	-	-	-	-	310
Financial assets at fair value through profit or loss	31	-	-	-	-	31
Fair value hedge derivatives	20	-	-	-	-	20
Placements with and loans to other banks	1,415	-	-	30	-	1,445
Loans and advances to customers	216	118	561	1,521	927	3,343
Investment securities measured at amortized cost	20	9	193	362	497	1,081
Investment securities at fair value through other comprehensive income	1	14	30	77	37	159
Investments in subsidiaries	-	-	-	-	28	28
Property and equipment	-	-	-	-	93	93
Right of use assets	-	-	1	4	1	6
Intangible assets	-	-	-	-	49	49
Deferred tax assets	-	-	-	13	-	13
Other assets	18	-	-	-	3	21
Non-current assets held for sale	-	-	1	-	-	1
Total assets	**2,031**	**141**	**786**	**2,007**	**1,635**	**6,600**
Liabilities, capital and reserves						
Financial liabilities at fair value through profit or loss	23	-	-	-	-	23
Deposits from banks	31	-	-	-	-	31
Deposits from companies and other similar entities	2,420	-	6	3	3	2,432
Deposits from individuals	2,616	-	2	10	5	2,633
Borrowings	51	2	6	23	5	87
Debt securities issued	-	-	14	504	-	518
Provisions for liabilities and charges	-	-	6	84	-	90
Tax liabilities	-	-	14	-	-	14
Lease liabilities	-	-	1	4	1	6
Other liabilities	62	-	2	2	-	66
Subordinated liabilities	-	1	-	-	60	61
Total equity attributable to owners of the parent	-	-	-	-	639	639
Total liabilities and equity	**5,203**	**3**	**51**	**630**	**713**	**6,600**
Maturity gap	**(3,172)**	**138**	**735**	**1,377**	**922**	**-**

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Liquidity risk (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	1,801	-	-	-	-	1,801
Financial assets at fair value through profit or loss	17	16	7	-	-	40
Fair value hedge derivatives	32	-	-	-	-	32
Placements with and loans to other banks	230	-	-	20	-	250
Loans and advances to customers	116	145	496	1,453	882	3,092
Investment securities measured at amortized cost	129	116	230	14	-	489
Investment securities at fair value through other comprehensive income	33	141	260	-	2	436
Investments in subsidiaries	-	-	-	-	40	40
Property and equipment	-	-	-	-	66	66
Right of use assets	-	1	2	9	6	18
Intangible assets	-	-	-	-	51	51
Other assets	22	-	-	-	4	26
Deferred tax assets	-	-	-	13	-	13
Total assets	**2,380**	**419**	**995**	**1,509**	**1,051**	**6,354**
Liabilities, capital and reserves	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss	9	-	-	-	-	9
Deposits from banks	108	-	-	-	-	108
Deposits from companies and other similar entities	2,388	-	2	5	2	2,397
Deposits from individuals	2,625	1	2	8	3	2,639
Borrowings	30	2	10	23	8	73
Debt securities issued	-	-	-	261	-	261
Provisions for liabilities and charges	-	-	7	74	-	81
Tax liabilities	-	-	2	-	-	2
Lease liabilities	-	1	2	10	6	19
Other liabilities	51	-	1	2	-	54
Subordinated liabilities	-	-	-	-	20	20
Total equity attributable to owners of the parent	-	-	-	-	691	691
Total liabilities and equity	**5,211**	**4**	**26**	**383**	**730**	**6,354**
Maturity gap	**(2,831)**	**415**	**969**	**1,126**	**321**	**-**

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Liquidity risk (continued)

Maturity analysis (continued)

The table below provides an analysis of the expected outflows of financial liabilities at 31 December 2023 and 31 December 2022.

Group 2023	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Financial liabilities at fair value through profit or loss	27	7	30	90	57	211
Deposits from banks	31	-	-	-	-	31
Deposits from companies and other similar entities	2,383	-	10	3	3	2,399
Deposits from individuals	2,617	-	8	13	5	2,643
Borrowings	57	10	47	121	5	240
Debt securities issued	-	6	33	595	-	634
Lease liabilities	-	-	1	4	2	7
Other financial liabilities	34	-	-	-	-	34
Subordinated liabilities	-	3	9	49	78	139
Total financial liabilities	**5,150**	**26**	**138**	**875**	**150**	**6,339**

Group 2022	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Financial liabilities at fair value through profit or loss	10	2	7	17	8	44
Deposits from banks	108	-	-	-	-	108
Deposits from companies and other similar entities	2,343	-	4	5	2	2,354
Deposits from individuals	2,626	1	3	10	3	2,643
Borrowings	30	9	43	96	11	189
Debt securities issued	-	3	11	293	-	307
Lease liabilities	-	-	1	4	2	7
Other financial liabilities	30	-	-	-	-	30
Subordinated liabilities	-	-	1	7	22	30
Total financial liabilities	**5,147**	**15**	**70**	**432**	**48**	**5,712**

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Liquidity risk (continued)

Maturity analysis (continued)

Bank 2023	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Liabilities						
Financial liabilities at fair value through profit or loss	26	7	30	90	57	210
Deposits from banks	31	-	-	-	-	31
Deposits from companies and other similar entities	2,420	-	10	3	3	2,436
Deposits from individuals	2,617	-	8	13	5	2,643
Borrowings	51	2	7	23	5	88
Debt securities issued	-	6	33	595	-	634
Lease liabilities	-	1	1	3	1	6
Other financial liabilities	33	-	-	-	-	33
Subordinated liabilities	-	3	9	49	78	139
Total financial liabilities	**5,178**	**19**	**98**	**776**	**149**	**6,220**

Bank 2022	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Liabilities						
Financial liabilities at fair value through profit or loss	10	2	7	17	8	44
Deposits from banks	108	-	-	-	-	108
Deposits from companies and other similar entities	2,389	-	2	5	2	2,398
Deposits from individuals	2,626	1	3	10	3	2,643
Borrowings	29	2	10	23	8	72
Debt securities issued	-	3	11	293	-	307
Lease liabilities	-	1	3	11	7	22
Other financial liabilities	28	-	-	-	-	28
Subordinated liabilities	-	-	1	7	22	30
Total financial liabilities	**5,190**	**9**	**37**	**366**	**50**	**5,652**

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Liquidity risk (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 2023 and 31 December 2022 are presented in the following table.

Group 2023	**Carrying amount of encumbered asset**	**Carrying amount of non-encumbered asset**	**Total**
Assets			
Cash and current accounts with banks	48	267	315
Placements with and loans to other banks	1	1,446	1,447
Investment securities	45	1,250	1,295
Loans and advances to customers	1	3,475	3,476
Other assets	3	465	468
	98	**6,903**	**7,001**

Group 2022	**Carrying amount of encumbered asset**	**Carrying amount of non-encumbered asset**	**Total**
Assets			
Cash and current accounts with banks	-	1,801	1,801
Placements with and loans to other banks	180	70	250
Investment securities	39	885	924
Loans and advances to customers	-	3,091	3,091
Other assets	1	286	287
	220	**6,133**	**6,353**

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Liquidity risk (continued)

Financial assets available for future financing (continued)

Bank **2023**	**Carrying amount of encumbered asset**	**Carrying amount of non-encumbered asset**	**Total**
Assets			
Cash and current accounts with banks	48	262	310
Assets	1	1,444	1,445
Cash and current accounts with banks	45	1,195	1,240
Placements with and loans to other banks	1	3,342	3,343
Investment securities	3	259	262
	98	**6,502**	**6,600**

Bank **2022**	**Carrying amount of encumbered asset**	**Carrying amount of non-encumbered asset**	**Total**
Assets			
Cash and current accounts with banks	-	1,805	1,805
Placements with and loans to other banks	180	74	254
Investment securities	39	991	1,030
Loans and advances to customers	-	3,178	3,178
Other assets	1	407	408
	220	**6,455**	**6,675**

50. 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.

(all amounts are shown in EUR millions)

50. 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).

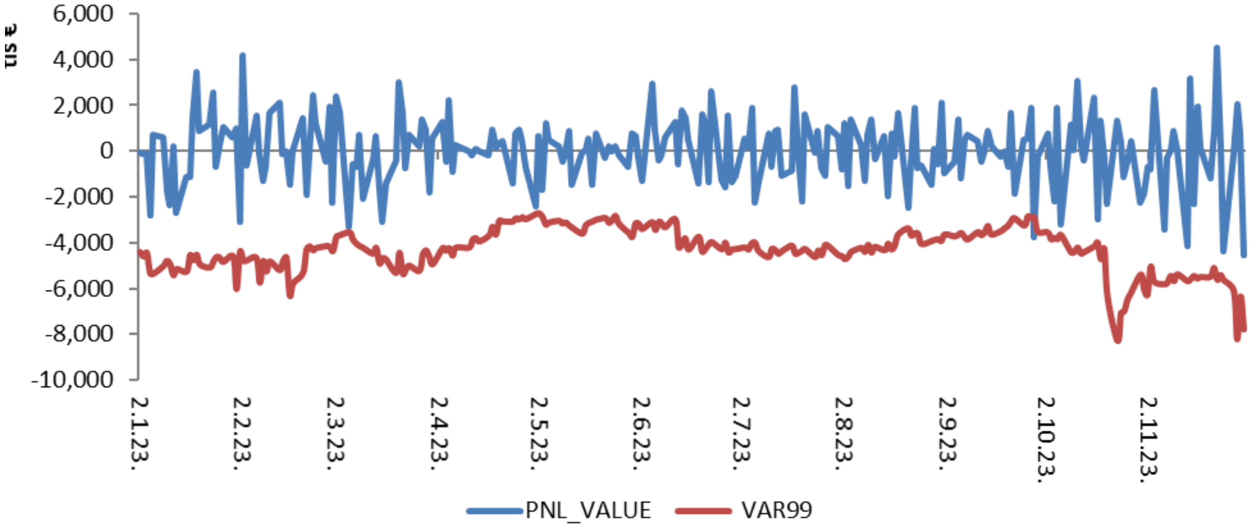
The limit resets to zero at the beginning of each calendar year, as the loss has to be calculated versus the maximum profit in the year-to-date period.

The following table presents the Value-at-Risk for 2023 and 2022:

	December 2023	December 2022	Average	min	max
Interest rate risk					
- trading book	0.01	0.13	0.01	0.00	0.02
- banking book	0.48	1.46	1.08	0.38	7.03
Currency risk	0.48	0.01	0.02	0.01	0.48
Credit Spread Risk	6.00	4.02	4.54	2.87	7.88
Price risk	0.007	0.01	0.007	0.005	0.008
Total VaR	6.29	3.83	4.54	2.74	8.52

50. 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 2023 one backtesting violations which compared with the previous year (4 backtesting breaches) show, the stability of the model and a good response of the model to market movements.
The Bank, during the 2023 still had 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 EUR millions)

50. 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 2023 and 2022:

BPV / Currency in HRK	EUR	USD
31 December 2023	0.30	(0.47)
Average	0.25	(0.39)
Minimum	(0.58)	(0.77)
Maximum	0.76	0.04

BPV / Currency in HRK	EUR	USD	HRK
31 December 2022	0.63	(0.77)	(41.81)
Average	12.86	(0.73)	(13.12)
Minimum	0.63	(1.81)	(19.19)
Maximum	18.41	0.63	(38.22)

Total BPV for trading book at 31 December 2023 was EUR 1.24 thousand as compared to 31 December 2022 when it was EUR 1.45 thousand. The decreasing exposure trend continued from previous year, as a result of the introduction of the euro and the reduction of positions in currency derivative instruments.

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 2023 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 2024. Since USD LIBOR ceased to exist from mid of 2023, new reference rate for related loans is TERM SOFR.
As for the derivatives transactions, the master agreement with the parent company is referred 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 changes and usage of reference 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.

50. 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 2023 and 2022:

BPV / Currency in EUR thousand	EUR	USD
31 December 2023	(41.66)	(15.50)
Average	(53.452)	(15.53)
Minimum	(459.47)	(33.57)
Maximum	165.67	(4.01)

BPV / Currency in EUR thousand	EUR	USD	HRK
31 December 2022	82.68	(122.46)	(4.04)
Average	51.90	(55.81)	3.53
Minimum	23.16	(130.51)	(6.04)
Maximum	97.08	18.47	9.23

Total BPV for non-trading book at 31 December 2023 was EUR 55.33 thousand as compared to 31 December 2022 when it was EUR 210 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.

	31.12.2023.	31.12.2022.
ECONOMIC VALUE CHANGE – regulatory shock / REGULATORY CAPITAL	7.74%	7.44%
ECONOMIC VALUE CHANGE – 6 additional shocks / TIER 1 CAPITAL	8.60%	7.60%

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 EUR million	31 December 2023	31 December 2022
Net interest income	34,76	35,51

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 2023 and 31 December 2022 is presented in the following table.

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Interest rate risk (continued)

Interest rate risk in non-trading book (continued)

ISI result as at 31 December 2023

	+200 bp		-200 bp	
	EUR	FCY	EUR	FCY
Effect on NII	3.56	(2.75)	(73.31)	(3.25)
Effect on financial assets value	(35.53)	(0.00)	(5.32)	(0.00)
Effect on result	(34.72)		(81.88)	

ISI result as at 31 December 2022

	+200 bp		-200 bp	
	HRK	FCY	HRK	FCY
Effect on NII	11.13	(9.39)	(27.37)	(8.76)
Effect on financial assets value	2.33	(2.65)	9.84	2.78
Effect on result	1.43		(23.53)	

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 2023 amounted EUR 6.93 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 foreign currency and maintaining daily business activities within daily allowed open limits per currency.
In order to protect itself against currency risk, Group uses derivative financial instruments.

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Exchange rate risk (continued)

Currency analysis

Group 2023	USD	CHF	Other foreign currencies	Total foreign currencies	EUR	Total currencies
Group						
Cash and current accounts with banks	5	2	13	20	295	315
Financial assets at fair value through profit or loss	2	-	-	2	209	211
Fair value hedge derivatives	-	-	-	-	20	20
Placements with and loans to other banks	-	-	-	-	1,447	1,447
Loans and advances to customers	29	1	-	30	3,446	3,476
Investment securities measured at amortized cost	143	-	-	143	993	1,136
Investment securities at fair value through other comprehensive income	6	-	-	6	153	159
Property and equipment	-	-	-	-	95	95
Investment property	-	-	-	-	19	19
Property and equipment within operating lease	-	-	-	-	20	20
Right of use assets	-	-	-	-	7	7
Intangible assets	-	-	-	-	53	53
Other assets	-	-	-	-	28	28
Deferred tax assets	-	-	-	-	14	14
Non-current assets held for sale	-	-	-	-	1	1
Total assets	**185**	**3**	**13**	**201**	**6,800**	**7,001**
Liabilities, capital and reserves						
Financial liabilities at fair value through profit or loss	-	-	-	-	24	24
Deposits from banks	15	7	1	23	8	31
Deposits from companies and other similar entities	74	6	15	95	2,300	2,395
Deposits from individuals	143	61	37	241	2,392	2,633
Borrowings	-	-	-	-	227	227
Debt securities issued	-	-	-	-	518	518
Provisions for liabilities and charges	-	-	-	-	93	93
Tax liabilities	-	-	-	-	15	15
Lease liabilities	-	-	-	-	7	7
Other liabilities	1	-	-	1	85	86
Insurance contract liabilities	-	-	-	-	225	225
Subordinated liabilities	-	-	-	-	61	61
Total equity attributable to owners of the parent	-	-	-	-	686	686
Total liabilities and equity	**233**	**74**	**53**	**360**	**6,641**	**7,001**
Currency gap	**(48)**	**(71)**	**(40)**	**(159)**	**159**	**-**

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Exchange rate risk (continued)

Currency analysis (continued)

Group 2022	EUR	EUR linked	CHF	CHF linked	Other foreign currencies	Total foreign currencies	HRK	Total currencies
Assets								
Cash and current accounts with banks	73	-	2	-	13	88	1,717	1,805
Financial assets at fair value through profit or loss	53	41	-	-	4	98	34	132
Fair value hedge derivatives	32	-	-	-	-	32	-	32
Placements with and loans to other banks	70	-	-	-	-	70	184	254
Loans and advances to customers	342	1,806	-	1	1	2,150	1,029	3,179
Investment securities measured at amortized cost	200	162	-	-	129	491	104	595
Investment securities at fair value through other comprehensive income	188	48	-	-	40	276	160	436
Property and equipment	-	-	-	-	-	-	95	95
Investment property	-	-	-	-	-	-	18	18
Property and equipment within operating lease	-	-	-	-	-	-	18	18
Right of use assets	-	-	-	-	-	-	7	7
Intangible assets	-	-	-	-	-	-	55	55
Other assets	3	1	-	-	-	4	33	37
Deferred tax assets	-	-	-	-	-	-	14	14
Total assets	**961**	**2,058**	**2**	**1**	**187**	**3,209**	**3,468**	**6,677**
Liabilities, capital and reserves								
Financial liabilities at fair value through profit or loss	6	-	-	-	3	9	-	9
Deposits from banks	38	-	7	-	13	58	50	108
Deposits from companies and other similar entities	728	2	4	-	132	866	1,488	2,354
Deposits from individuals	1,354	75	65	-	206	1,700	939	2,639
Borrowings	117	18	-	-	13	148	36	184
Debt securities issued	261	-	-	-	-	261	-	261
Provisions for liabilities and charges	2	-	-	-	-	2	81	83
Tax liabilities	-	-	-	-	-	-	1	1
Lease liabilities	-	5	-	-	-	5	2	7
Other liabilities	6	2	-	-	-	8	60	68
Insurance contract liabilities	-	28	-	-	-	28	182	210
Subordinated liabilities	20	-	-	-	-	20	-	20
Total equity attributable to owners of the parent	-	-	-	-	-	-	733	733
Total liabilities and equity	**2,532**	**130**	**76**	**-**	**367**	**3,105**	**3,572**	**6,677**
Currency gap	**(1,571)**	**1,928**	**(74)**	**1**	**(180)**	**104**	**(104)**	**-**

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Exchange rate risk (continued)

Currency analysis (continued)

Bank 2023	**USD**	**CHF**	**Other foreign currencies**	**Total foreign currencies**	**EUR**	**Total currencies**
Assets						
Cash and current accounts with banks	5	2	13	20	290	310
Financial assets at fair value through profit or loss	2	-	-	2	29	31
Fair value hedge derivatives	-	-	-	-	20	20
Placements with and loans to other banks	-	-	-	-	1,445	1,445
Loans and advances to customers	29	1	-	30	3,313	3,343
Investment securities measured at amortized cost	143	-	-	143	938	1,081
Investment securities at fair value through other comprehensive income	6	-	-	6	153	159
Investments in subsidiaries	-	-	-	-	28	28
Property and equipment	-	-	-	-	93	93
Right of use assets	-	-	-	-	6	6
Intangible assets	-	-	-	-	49	49
Other assets	-	-	-	-	21	21
Deferred tax assets	-	-	-	-	13	13
Non-current assets held for sale	-	-	-	-	1	1
Total assets	**185**	**3**	**13**	**201**	**6,399**	**6,600**
Liabilities, capital and reserves						
Financial liabilities at fair value through profit or loss	-	-	-	-	23	23
Deposits from banks	15	7	1	23	8	31
Deposits from companies and other similar entities	74	6	15	95	2,337	2,432
Deposits from individuals	143	61	37	241	2,392	2,633
Borrowings	-	-	-	-	87	87
Debt securities issued	-	-	-	-	518	518
Provisions for liabilities and charges	-	-	-	-	90	90
Tax liabilities	-	-	-	-	14	14
Lease liabilities	-	-	-	-	6	6
Other liabilities	1	-	-	1	65	66
Subordinated liabilities	-	-	-	-	61	61
Total equity attributable to owners of the parent	-	-	-	-	639	639
Total liabilities and equity	**233**	**74**	**53**	**360**	**6,240**	**6,600**
Currency gap	**(48)**	**(71)**	**(40)**	**(159)**	**159**	**-**

(all amounts are shown in EUR millions)

50. Risk Management (continued)

Exchange rate risk (continued)

Currency analysis (continued)

Bank 2022	**EUR**	**EUR linked**	**CHF**	**CHF linked**	**Other foreign currencies**	**Total foreign currencies**	**HRK**	**Total currencies**
Assets								
Cash and current accounts with banks	69	-	2	-	13	84	1717	1801
Financial assets at fair value through profit or loss	16	3	-	-	4	23	17	40
Fair value hedge derivatives	32	-	-	-	-	32	-	32
Placements with and loans to other banks	70	-	-	-	-	70	179	249
Loans and advances to customers	383	1,684	-	1	1	2,069	1,024	3,093
Investment securities measured at amortized cost	131	131	-	-	129	391	99	490
Investment securities at fair value through other comprehensive income	188	48	-	-	40	276	159	435
Investments in subsidiaries	-	-	-	-	-	-	40	40
Property and equipment	-	-	-	-	-	-	66	66
Right of use assets	-	-	-	-	-	-	18	18
Intangible assets	-	-	-	-	-	-	50	50
Other assets	-	-	-	-	-	-	13	13
Deferred tax assets	3	-	-	-	-	3	25	28
Total assets	**892**	**1,866**	**2**	**1**	**187**	**2,948**	**3,407**	**6,355**
Liabilities, capital and reserves								
Financial liabilities at fair value through profit or loss	6	-	-	-	3	9	-	9
Deposits from banks	38	-	7	-	13	58	51	109
Deposits from companies and other similar entities	736	-	4	-	132	872	1,526	2,398
Deposits from individuals	1,354	75	65	-	206	1,700	939	2,639
Borrowings	19	18	-	-	13	50	23	73
Debt securities issued	261	-	-	-	-	261	-	261
Provisions for liabilities and charges	2	-	-	-	-	2	79	81
Tax liabilities	-	-	-	-	-	-	2	2
Lease liabilities	-	6	-	-	-	6	13	19
Other liabilities	6	2	-	-	-	8	45	53
Subordinated liabilities	20	-	-	-	-	20	-	20
Total equity attributable to owners of the parent	-	-	-	-	-	-	691	691
Total liabilities and equity	**2,442**	**101**	**76**	**-**	**367**	**2,986**	**3,369**	**6,355**
Currency gap	**(1,550)**	**1,765**	**(74)**	**1**	**(180)**	**(38)**	**38**	**-**

50. 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 Operational Risk Control and Resolution Planning. 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.

(all amounts are shown in EUR millions)

50. 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.

50. a) Securitization

In the years 2022 and 2023, the Bank performed two synthetic securitisations, where the defined credit portfolio was divided into senior, mezzanine and junior tranches. Credit risk of the mezzanine tranches was protected by guarantees of investors, whereas credit risk of the junior and senior tranches was retained by the Bank.

31.12.2023	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	365	362	628	Loans and advances to customers	Mezzanine	26
ROOF CROATIA 2023	December 2023	November 2035	660	660	694	Loans to individuals	Mezzanine	61

31.12.2022	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	366	365	658	Loans and advances to customers	Mezzanine	26

51. Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market condition (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Financial instruments at fair value through profit or loss and at fair value through other comprehensive income are measured at fair value. Financial assets at amortised cost are measured at amortised cost less impairment.
The carrying amount of cash and current accounts with banks, placements with banks, deposits from banks and deposits from companies and similar entities, reflect their fair value due to the short-term maturity. The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Loans and advances

The valuation method that applies to simple, plain-vanilla transactions are executed through discounted cash flow, which means that the generated future cash flows will be discounted with the appropriate discount rate that will reflect the current market situation and an additional add-on corresponding to the specifics of the individual sub-portfolios.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at date of reporting. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values.

Borrowings

Most of the Group’s long-term debt has no quoted market price and fair value is estimated as the present value of future cash flows, discounted at interest rates available at date of reporting to the Group for new debt of similar type and remaining maturity.

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, i.e. 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 EUR millions)

51. Fair value of financial instruments (continued)

Group 2023	**Notes**	**Carrying amount**	**Fair value**			**Total fair value**
			Level 1	**Level 2**	**Level 3**	
Cash and current accounts with banks	7	315	-	315	-	315
Financial assets at fair value through profit or loss						
Financial assets held for trading						
Debt securities	8	2	1	1	-	2
Equity securities	8	-	-	-	-	-
Derivative financial assets	8	10	-	10	-	10
Financial assets mandatorily at fair value through profit or loss						
Debt securities	8	4	-	-	4	4
Equity securities	8	3	-	2	1	3
Investment in investment funds	8	12	3	-	9	12
Financial assets at option fair value through profit or loss						
Debt securities	8	180	166	14	-	180
Fair value hedge derivatives	8a	20	-	20	-	20
Placements with and loans to other banks	9	1,447	-	-	1,448	1,448
Loans and advances to customers	10	3,476	-	-	3,300	3,300
Investment securities measured at amortized cost						
Debt securities	11a	1,136	1,091	44	-	1,135
Investment securities at fair value through other comprehensive income						
Debt securities	11b	158	148	10	-	158
Equity securities	11b	1	-	-	1	1
Other financial assets		12	-	-	12	12
	-	**6,776**	**1,409**	**416**	**4,775**	**6,600**
Financial liabilities at fair value through profit or loss	19	24	-	24	-	24
Deposits from banks	20	31	-	-	31	31
Deposits from companies and other similar entities	21	2,395	-	-	2,396	2,396
Deposits from individuals	22	2,633	-	-	2,622	2,622
Borrowings	23	227	-	-	229	229
Debt securities issued	24	518	514	-	-	514
Lease liabilities	14a	7	-	-	7	7
Other financial liabilities		34	-	-	34	34
Subordinated liabilities	27	61	-	-	62	62
		5,930	**514**	**24**	**5,381**	**5,919**

(all amounts are shown in EUR millions)

51. Fair value of financial instruments (continued)

Group 2022	**Notes**	**Carrying amount**	**Fair value**			**Total fair value**
			Level 1	**Level 2**	**Level 3**	
Cash and current accounts with banks	7	1,805	-	1,805	-	1,805
Financial assets at fair value through profit or loss						
Financial assets held for trading						
Debt securities	8	6	5	1	-	6
Equity securities	8	-	-	-	-	-
Derivative financial assets	8	12	-	12	-	12
Financial assets mandatorily at fair value through profit or loss						
Equity securities	8	2	-	1	-	1
Investment in investment funds	8	15	-	-	15	15
Financial assets at option fair value through profit or loss						
Debt securities	8	98	27	71	-	98
Fair value hedge derivatives	8a	32	-	32	-	32
Placements with and loans to other banks	9	254	-	-	254	254
Loans and advances to customers	10	3,179	-	-	2,953	2,953
Investment securities measured at amortized cost						
Debt securities	11a	595	535	30	-	565
Investment securities at fair value through other comprehensive income						
Debt securities	11b	433	424	10	-	434
Equity securities	11b	2	-	2	-	2
Other financial assets		13	-	-	13	13
		6,446	**991**	**1,964**	**3,235**	**6,190**
Financial liabilities at fair value through profit or loss	19	9	-	9	-	9
Deposits from banks	20	108	-	-	108	108
Deposits from companies and other similar entities	21	2,354	-	-	2,354	2,354
Deposits from individuals	22	2,639	-	-	2,624	2,624
Borrowings	23	184	-	-	181	181
Debt securities issued	24	261	263	-	-	263
Lease liabilities	14a	7	-	-	7	7
Other financial liabilities		30	-	-	30	30
Subordinated liabilities	27	20	-	-	20	20
-		**5,612**	**263**	**9**	**5,324**	**5,596**

(all amounts are shown in EUR millions)

51. Fair value of financial instruments (continued)

Bank 2023	**Notes**	**Carrying amount**	**Fair value**			**Total fair value**
			Level 1	**Level 2**	**Level 3**	
Cash and current accounts with banks	7	310	-	310	-	310
Financial assets at fair value through profit or loss						
Financial assets held for trading						
Debt securities	8	2	1	1	-	2
Equity securities	8	-	-	-	-	-
Derivative financial assets	8	9	-	9	-	9
Financial assets mandatorily at fair value through profit or loss						
Debt securities	8	4	-	-	4	4
Equity securities	8	3	-	2	1	3
Financial assets at option fair value through profit or loss						
Debt securities	8	13	5	8	-	13
Fair value hedge derivatives	8a	20	-	20	-	20
Placements with and loans to other banks	9	1,445	-	-	1,446	1,446
Loans and advances to customers	10	3,343	-	-	3,164	3,164
Investment securities measured at amortized cost						
Debt securities	11a	1,081	1,091	2	-	1,093
Investment securities at fair value through other comprehensive income						
Debt securities	11b	158	148	10	-	158
Equity securities	11b	1	-	-	1	1
Investments in subsidiaries	12	28	-	-	28	28
Other financial assets		8	-	-	8	8
		6,425	**1,245**	**362**	**4,652**	**6,259**
Financial liabilities at fair value through profit or loss	19	23	-	23	-	23
Deposits from banks	20	31	-	-	31	31
Deposits from companies and other similar entities	21	2,432	-	-	2,433	2,433
Deposits from individuals	22	2,633	-	-	2,622	2,622
Borrowings	23	87	-	-	88	88
Debt securities issued	24	518	514	-	-	514
Lease liabilities	14a	6	-	-	6	6
Other financial liabilities		33	-	-	33	33
Subordinated liabilities	27	61	-	-	62	62
		5,824	**514**	**23**	**5,275**	**5,812**

(all amounts are shown in EUR millions)

51. Fair value of financial instruments (continued)

Bank 2022	**Notes**	**Carrying amount**	**Fair value**			**Total fair value**
			Level 1	**Level 2**	**Level 3**	
Cash and current accounts with banks	7	1,801	-	1,801	-	1,801
Financial assets at fair value through profit or loss						
Financial assets held for trading						
Debt securities	8	6	5	1	-	6
Equity securities	8	-	-	-	-	-
Derivative financial assets	8	12	-	12	-	12
Financial assets mandatorily at fair value through profit or loss						
Equity securities	8	2	-	1	-	1
Financial assets at option fair value through profit or loss						
Debt securities	8	20	5	16	-	21
Fair value hedge derivatives	8a	32	-	32	-	32
Placements with and loans to other banks	9	250	-	-	249	249
Loans and advances to customers	10	3,092	-	-	2,864	2,864
Investment securities measured at amortized cost						
Debt securities	11a	489	477	3	-	480
Investment securities at fair value through other comprehensive income						
Debt securities	11b	434	424	10	-	434
Equity securities	11b	2	-	2	-	2
Investments in subsidiaries	13	40	-	-	40	40
Other financial assets		9	-	-	9	9
		6,189	**911**	**1,878**	**3,162**	**5,951**
Financial liabilities at fair value through profit or loss	19	9	-	9	-	9
Deposits from banks	20	108	-	-	108	108
Deposits from companies and other similar entities	21	2,397	-	-	2,398	2,398
Deposits from individuals	22	2,639	-	-	2,624	2,624
Borrowings	23	73	-	-	73	73
Debt securities issued	24	261	263	-	-	263
Lease liabilities	14a	19	-	-	19	19
Other financial liabilities		28	-	-	28	28
Subordinated liabilities	27	20	-	-	20	20
		5,554	**263**	**9**	**5,270**	**5,542**

(all amounts are shown in EUR millions)

51. 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	***Trading instruments***	***Financial assets designated at fair value through profit or loss***		***Financial assets at fair value through other comprehensive income***
	Equity securities	**Debt securities**	**Equity securities**	**Equity securities**
At 1 January 2022	**-**	**8**	**-**	**1**
Changes in financial year	-	6	-	-
Gains and losses in other comprehensive income	-	-	-	(1)
Gains and losses in profit in loss	-	1	-	-
At 31 December 2022	**-**	**15**	**-**	**-**
Changes in financial year	-	(3)	-	-
Reclassification to level 1	-	(3)	-	-
Gains and losses in other comprehensive income	-	-	-	1
Gains and losses in profit in loss	-	4	1	-
At 31 December 2023	**-**	**13**	**1**	**1**

Bank	***Trading instruments***	***Financial assets designated at fair value through profit or loss***		***Financial assets at fair value through other comprehensive income***
	Equity securities	**Debt securities**	**Equity securities**	**Equity securities**
At 1 January 2022	**-**	**-**	**-**	**1**
Changes in financial year	-	-	-	-
Gains and losses in other comprehensive income	-	-	-	(1)
Gains and losses in profit in loss	-	-	-	-
At 31 December 2022	**-**	**-**	**-**	**-**
Changes in financial year	-	-	-	-
Gains and losses in other comprehensive income	-	-	-	1
Gains and losses in profit in loss	-	4	1	-
At 31 December 2023	**-**	**4**	**1**	**1**

With the entry of the Republic of Croatia into the euro area from 1 January 2023, in the internal systems and reports, financial assets have been adjusted in accordance with the new market environment and legal and regulatory framework. Changes in the value of financial assets are caused by movements in the money and capital markets, changes in interest yields and associated volatilities, and the activities of the central government.

(all amounts are shown in EUR millions)

51. Fair value of financial instruments (continued)

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	4,420	EUR	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	572,730	EUR	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 2023 there was no reclassifications from Level 1 to Level 2 or Level 3. During 2023, the number of securities classified as Level 2 decreased due to the maturity of the bonds of Zagreb Holding and Erste Bank.

Transfers between levels of the Group are reclassified due to compliance with the Bank's policy.

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

52. 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, and Raiffeisen Leasing d.o.o., (2022: Raiffeisenbank Austria 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.

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 1.5% of the total risk exposure amount
- countercyclical buffer in the amount of 1% 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) and Pillar II (P2R), the Bank and the Group also maintain the capital requirements all prescribed capital buffers.

(all amounts are shown in EUR millions)

52. Capital management (continued)

	Group 2023	Group 2022	Bank 2023	Bank 2022
Regulatory capital				
Tier 1 capital				
Common Equity Tier 1 ("CET1") capital				
Issued share capital	481	481	481	481
Share premium	2	2	2	2
Retained earnings (excluding profit for the period)	41	156	4	123
Recognised profit	-	-	-	-
Legal, statutory and other reserves	23	24	22	23
Accumulated other comprehensive income	(6)	(14)	(6)	(14)
Deductions, in accordance with the CNB regulations				
Intangible assets	(25)	(31)	(25)	(31)
Value adjustment due to prudent valuations	(1)	(1)	(1)	(1)
Goodwill	(4)	(4)	-	-
Securitized positions	(7)	(4)	(7)	(4)
Deductions for investments in banks and financial institutions	(1)	(1)	(1)	(1)
Insufficient coverage for non-performing exposures	(6)	(5)	(6)	(5)
Total Common Equity Tier 1 capital	**497**	**603**	**463**	**573**
Additional TIER 1 capital	**40**	**39**	**40**	**39**
Tier 2 capital	**60**	**20**	**60**	**20**
Total Own Funds	**597**	**662**	**563**	**632**
Total risk-weighted assets	**2,958**	**2,931**	**2,825**	**2,840**
Hereof:				
Credit risk, counterparty and dilution risks and free deliveries	2,559	2,569	2,442	2,494
Position, foreign exchange and commodities risk	15	32	15	32
Operational risk	374	327	358	311
Credit valuation adjustment	10	3	10	3
Capital adequacy ratio	**20.19%**	**22,60%**	**19.93%**	**22.26%**

In 2023, the capital adequacy ratio of the Group and the Bank was above the prescribed minimum.

53. Key business indicators

Key business indicators are given in table below:

EUR million/ %	Group 2023	Group 2022	Bank 2023	Bank 2022
Cost/income ratio	55.75%	74.48%	54.03%	70.05%
Cost/income ratio*	53.90%	66.92%	-	-
Effective tax rate (ETR)	19.23%	16.79%	18.64%	15.96%
Loan/deposits ratio	69.13%	63.67%	66.00%	61.38%
Net interest margin	2.74%	1.91%	2.75%	1.89%
Non-performing exposure (NPE)	132	131	129	126
Non-performing loans (NPL)	132	131	129	126
Non-performing exposure ratio	1.62%	2.09%	1.63%	2.08%
Non-performing loans ratio	1.93%	2.51%	1.94%	2.46%
Non-performing exposure coverage ratio	56.82%	59.07%	56.59%	60.21%
Non-performing loans coverage ratio	56.82%	59.07%	56.59%	60.21%
Operating result	105	45	96	37
Operating income	287	273	248	204
Provisioning ratio**	0.20%	0.13%	0.20%	0.15%
Provisioning ratio (loans to customers)	0.41%	0.23%	0.42%	0.28%
Return on assets (ROA before tax)	1.90%	0.85%	1.82%	0.74%
Return on assets (ROA after tax)	1.54%	0.71%	1.48%	0.62%
Return on equity (ROE before tax)	20.49%	7.99%	19.72%	6.90%
Return on equity (ROE after tax)	16.55%	6.64%	16.04%	5.80%
Return on risk-adjusted capital (RORAC)	34.77%	12.17%	-	-
Common equity tier 1 ratio	16.81%	20.57%	16.39%	20.17%
Leverage ratio	7.64%	9.64%	7.31%	9.35%
Total risk-weighted assets (RWA)	2,958	2,932	2,825	2,842
Tier 1 ratio	18.16%	21.92%	17.80%	21.56%
Total capital ratio	20.19%	22.60%	19.93%	22.26%

*Excluding expenses for insurance contract liabilities and repayment of pension contracts and income from premium on pension insurance contracts
**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.

53. Key business indicators (continued)

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.

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.

53. Key business indicators (continued)

Provisioning ratio - is an indicator for development of risk costs and provisioning policy of an enterprise. It is computed by dividing impairment or reversal of impairment on financial assets by average amount of financial assets measured at amortized cost and financial assets at fair value through other comprehensive income.

Provisioning ratio (loans to customers) - is an indicator for development of risk costs and provisioning policy of an enterprise. It is computed by dividing impairment or reversal of impairment on financial assets (loans to customers) by average amount of customer loans (category: loans and advances to customers).

Return on assets (ROA before / after tax) - is a profitability ratio and measures how efficiently a company can manage its assets to produce profits during a period. It is computed by dividing profit before tax/after tax by average assets.

Return on equity (ROE before / after tax) - provides a profitability measure for both management and investors by expressing the profit for the period as presented in the income statement as a percentage of the respective underlying (either equity or total asset). Return on equity demonstrates the profitability of the bank on the capital invested by its shareholders and thus the success of their investment. Return on equity is a useful measure to easily compare the profitability of a bank with other financial institutions. 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).

54. Events after reporting period

From December 31, 2023 until the reporting date, there were no significant events that would affect the financial results of the Bank and the Group.

55. Approval of the financial statements

Annual Report of the Bank and the Group are approved by the Management Board of the Bank on March 28, 2024.

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 EUR millions)

Pursuant to the Croatian Accounting Law (Official Gazette 78/15, 134/15, 120/16, 116/18, 42/2020, 47/2020, 114/22 and. 82/23) 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 with the above mentioned Decisions.

Statement of financial position (Balance sheet) - unaudited		**Group 2023**	**Group 2022**
Assets			
1.	Cash and cash equivalents, central bank receivables and other demand deposits (from 2 to 4)	1,717	1,802
2.	*Cash in hand*	210	177
3.	*Cash receivables and liabilities at central banks*	1,488	1,593
4.	*Other demand deposits*	19	32
5.	Financial assets for trading (from 6 to 9)	11	18
6.	*Derivatives*	9	12
7.	*Equity instruments*	-	-
8.	*Debt securities*	2	6
9.	*Loans and advances*	-	-
10.	Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)	7	2
11.	*Equity instruments*	3	2
12.	*Debt securities*	4	-
13.	*Loans and advances*	-	-
14.	Financial assets at fair value through profit or loss (15+16)	12	21
15.	*Debt securities*	12	21
16.	*Loans and advances*	-	-
17.	Financial assets at fair value through other comprehensive income (from 18 to 20)	159	436
18.	*Equity instruments*	1	2
19.	*Debt securities*	158	434
20.	*Loans and advances*	-	-
21.	Financial assets at amortised cost (22 + 23)	4,603	3,927
22.	*Debt securities*	1,081	489
23.	*Loans and advances*	3,522	3,438
24.	Derivatives – hedge accounting	20	32
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	(2)
26.	Investments in subsidiaries, joint ventures and associates	40	37
27.	Tangible assets	126	124
28.	Intangible assets	53	54
29.	Tax assets	13	14
30.	Other assets	18	25
31.	Non-current assets and disposal groups classified as held for sale	1	-
32.	**TOTAL ASSETS (1. + 5. + 10. + 14. + 17. + 21. + from 24. to 31.)**	**6,780**	**6,490**

(all amounts are shown in EUR millions)

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

		Group 2023	Group 2022
Liabilities			
33.	Financial liabilities for trading (from 34 to 38)	8	7
34.	*Derivatives*	8	7
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)	5,924	5,636
44.	*Deposits*	5,365	5,337
45.	*Debt securities issued*	518	262
46.	*Other financial liabilities*	41	37
47.	Derivatives – Hedge accounting	15	3
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	5	-
49.	Provisions	98	90
50.	Tax liabilities	15	1
51.	Share capital repayable on demand	-	-
52.	Other liabilities	29	20
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33. + 39. + 43. + from 47. to 53.)**	**6,094**	**5,757**
Equity			
	Share capital	481	481
56.	Share premium	2	2
57.	Other equity instruments issued other than capital	40	39
58.	Other equity	-	-
59.	Accumulated other comprehensive income	(6)	(14)
60.	Retained earnings	41	156
61.	Revaluation reserves	-	-
62.	Other reserves	23	24
63.	(-) Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	105	45
65.	(-) Interim dividends	-	-
66.	Minority interests (Non-controlling interests)	-	-
67.	**TOTAL EQUITY (from 55. to 66.)**	**686**	**733**
68.	**TOTAL LIABILITIES AND EQUITY (54. + 67.)**	**6,780**	**6,490**

(all amounts are shown in EUR millions)

	Statement of financial position (Balance sheet) - unaudited (continued)	Bank 2023	Bank 2022
	Assets		
1.	Cash and cash equivalents, central bank receivables and other demand deposits (from 2 to 4)	1,717	1,802
2.	*Cash in hand*	210	177
3.	*Cash receivables and liabilities at central banks*	1,488	1,593
4.	*Other demand deposits*	19	32
5.	Financial assets for trading (from 6 to 9)	11	18
6.	*Derivatives*	9	12
7.	*Equity instruments*	-	-
8.	*Debt securities*	2	6
9.	*Loans and advances*	-	-
10.	Non-trading financial assets mandatorily at fair value through profit or loss (from 11 to 13)	7	2
11.	*Equity instruments*	3	2
12.	*Debt securities*	4	-
13.	*Loans and advances*	-	-
14.	Financial assets at fair value through profit or loss (15+16)	12	21
15.	*Debt securities*	12	21
16.	*Loans and advances*	-	-
17.	Financial assets at fair value through other comprehensive income (from 18 to 20)	159	436
18.	*Equity instruments*	1	2
19.	*Debt securities*	158	434
20.	*Loans and advances*	-	-
21.	Financial assets at amortised cost (22 + 23)	4,469	3,839
22.	*Debt securities*	1,081	489
23.	*Loans and advances*	3,388	3,350
24.	Derivatives – hedge accounting	20	32
25.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	(2)
26.	Investments in subsidiaries, joint ventures and associates	28	40
27.	Tangible assets	100	84
28.	Intangible assets	49	50
29.	Tax assets	13	13
30.	Other assets	14	19
31.	Non-current assets and disposal groups classified as held for sale	1	-
32.	**TOTAL ASSETS (1. + 5. + 10. + 14. + 17. + 21. + from 24. to 31.)**	**6,600**	**6,354**

(all amounts are shown in EUR millions)

Statement of financial position (Balance sheet) – unaudited (continued)		**Bank 2023**	**Bank 2022**
Liabilities			
33.	Financial liabilities for trading (from 34 to 38)	8	7
34.	*Derivatives*	8	7
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)	5,798	5,545
44.	*Deposits*	5,241	5,237
45.	*Debt securities issued*	518	261
46.	*Other financial liabilities*	39	47
47.	Derivatives – Hedge accounting	15	3
48.	Fair value changes of the hedged items in portfolio hedge of interest rate risk	5	-
49.	Provisions	96	88
50.	Tax liabilities	14	2
51.	Share capital repayable on demand	-	-
52.	Other liabilities	25	18
53.	Liabilities included in disposal groups classified as held for sale	-	-
54.	**TOTAL LIABILITIES (33. + 39. + 43. + from 47. to 53.)**	**5,961**	**5,663**
Equity			
55.	Share capital	481	481
56.	Share premium	2	2
57.	Other equity instruments issued other than capital	40	39
58.	Other equity	-	-
59.	Accumulated other comprehensive income	(6)	(14)
60.	Retained earnings	4	123
61.	Revaluation reserves	-	-
62.	Other reserves	22	23
63.	(-) Treasury shares	-	-
64.	Profit or loss attributable to owners of the parent	96	37
65.	(-) Interim dividends	-	-
66.	Minority interests (Non-controlling interests)	-	-
67.	**TOTAL EQUITY (from 55. to 66.)**	**639**	**691**
68.	**TOTAL LIABILITIES AND EQUITY (54. + 67.)**	**6,600**	**6,354**

(all amounts are shown in EUR millions)

	Income Statement - unaudited	Group 2023	Group 2022
1.	Interest income	253	126
2.	(Interest expense)	(78)	(15)
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	6	7
5.	Fee and commission income	93	115
6.	(Fee and commission expense)	(41)	(64)
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	-
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	9	37
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	6	-
10.	Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	1	(3)
11.	Gains or (-) losses from hedge accounting, net	-	-
12.	Exchange differences [gain or (-) loss], net	(2)	(1)
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	5	(1)
15.	Other operating income	10	12
16.	(Other operating expense)	(11)	(8)
17.	**TOTAL OPERATING INCOME, NET (1. to 16.)**	**251**	**205**
18.	(Administrative expense)	(101)	(108)
19.	(Cash contributions to resolution funds and deposit guarantee schemes)	(2)	(4)
20.	(Depreciation)	(19)	(19)
21.	Modification gains or (-) losses, net	-	-
22.	(Provisions or (-) reversal of provisions)	(9)	(7)
23.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	13	(7)
24.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates))	-	(12)
25.	(Impairment or (-) reversal of impairment on non-financial assets)	(7)	-
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	2	4
28.	Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	1
29.	**PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS (17. to 28.)**	**128**	**53**
30.	(Tax expense or (-) income related to profit or loss from continuing operations)	(23)	(8)
31.	**PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS (29. - 30.)**	**105**	**45**
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)**	**105**	**45**
36.	Attributable to minority interest [non-controlling interests]	-	-
37.	Attributable to owners of the parent	105	45

(all amounts are shown in EUR millions)

Statement of comprehensive income - unaudited		**Group 2023**	**Group 2022**
1.	**Profit or (-) loss for the year**	**105**	**45**
2.	Other comprehensive income (3. + 15.)	8	(18)
3.	***Items that will not be reclassified to profit or loss (from 4. to 10. + 13 + 14)***	**1**	**(1)**
4.	*Tangible assets*	-	-
5.	*Intangible assets*	-	-
6.	*Actuarial gains or (-) losses on defined benefit pension plans*	-	-
7.	*Non-current assets and disposal groups held for sale*	-	-
8.	*Share of other recognised income and expense of entities accounted for using the equity method*	-	-
9.	*Fair value changes of equity instruments measured at fair value through other comprehensive income*	1	(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*	-	-
15.	***Items that may be reclassified to profit of loss (from 16. to 23.)***	**7**	**(17)**
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*	9	(21)
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*	(2)	4
24.	**Total comprehensive income for the year (1 + 2; 25 + 26)**	**113**	**27**
25.	Attributable to minority interest (non-controlling interest)	-	-
26.	Attributable to owners of the parent	113	27

(all amounts are shown in EUR millions)

Income statement - unaudited		**Bank 2023**	**Bank 2022**
1.	Interest income	246	123
2.	(Interest expense)	(74)	(14)
3.	(Expenses on share capital repayable on demand)	-	-
4.	Dividend income	6	7
5.	Fee and commission income	93	114
6.	(Fee and commission expense)	(41)	(64)
7.	Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	-	-
8.	Gains or (-) losses on financial assets and liabilities held for trading, net	9	36
9.	Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	6	-
10.	Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	1	(3)
11.	Gains or (-) losses from hedge accounting, net	-	-
12.	Exchange differences [gain or (-) loss], net	(2)	(1)
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	1	(2)
15.	Other operating income	5	6
16.	(Other operating expense)	(11)	(8)
17.	**TOTAL OPERATING INCOME, NET (1. to 16.)**	**239**	**194**
18.	(Administrative expense)	(99)	(101)
19.	(Cash contributions to resolution funds and deposit guarantee schemes)	(2)	(4)
20.	(Depreciation)	(17)	(17)
21.	Modification gains or (-) losses, net	-	-
22.	(Provisions or (-) reversal of provisions)	(9)	(8)
23.	(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	13	(9)
24.	(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates))	-	(12)
25.	(Impairment or (-) reversal of impairment on non-financial assets)	(7)	-
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	-	1
29.	**PROFIT OR (-) LOSS BEFORE TAX FROM CONTINUING OPERATIONS (17. to 28.)**	**118**	**44**
30.	(Tax expense or (-) income related to profit or loss from continuing operations)	22	7
31.	**PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS (29. - 30.)**	**96**	**37**
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.)**	**96**	**37**
36.	Attributable to minority interest [non-controlling interests]	-	-
37.	Attributable to owners of the parent	96	37

(all amounts are shown in EUR millions)

Statement of comprehensive income - unaudited

		Bank 2023	Bank 2022
1.	**Profit or (-) loss for the year**	**96**	**37**
2.	Other comprehensive income (3. + 15.)	8	(18)
3.	**Items that will not be reclassified to profit or loss (from 4. to 10. + 13. + 14.)**	**1**	**(1)**
4.	*Tangible assets*	-	-
5.	*Intangible assets*	-	-
6.	*Actuarial gains or (-) losses on defined benefit pension plans*	-	-
7.	*Non-current assets and disposal groups held for sale*	-	-
8.	*Share of other recognised income and expense of entities accounted for using the equity method*	-	-
9.	*Fair value changes of equity instruments measured at fair value through other comprehensive income*	1	(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*	-	-
15.	**Items that may be reclassified to profit of loss (from 16 to 23)**	**7**	**(17)**
16.	*Hedges of net investments in foreign operations (effective portion)*	-	-
17.	*Foreign currency translation*	-	-
18.	*Cash flow hedges (effective portion)*	-	-
19.	*Hedging instruments (not designated elements)*	-	-
20.	*Debt instruments at fair value through other comprehensive Income*	9	(20)
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*	(2)	3
24.	**Total comprehensive income for the year (1 + 2; 25 + 26)**	**104**	**19**
25.	Attributable to minority interest (non-controlling interest)	-	-
26.	Attributable to owners of the parent	104	19

(all amounts are shown in EUR millions)

Statement of cash flows – indirect method

		Group 2023	Group 2022
	Operating activities under indirect method		
9.	Profit/(loss) before tax	**128**	**52**
	Adjustments:		
10.	Impairment losses	(3)	15
11.	Depreciation and amortization	19	19
12.	Unrealised (gains)/losses on securities at fair value through profit or loss	(9)	3
13.	(Gains)/losses from sale of tangible assets	(5)	-
14.	Other non cash items	(176)	(117)
	Changes in assets and liabilities due to operating activities		
15.	Deposits with the Croatian National Bank	-	248
16.	Deposits with banking institutions and loans to financial institutions	(62)	(17)
17.	Loans and advances to other clients	(220)	(231)
18.	Securities and other financial instruments at fair value through other comprehensive income	-	-
19.	Securities and other financial instruments held for trading	(4)	41
20.	Securities and other financial instruments at fair value through profit or loss which are not actively traded	41	(20)
21.	Securities and other financial instruments mandatorily at FVTPL	(6)	1
22.	Securities and other financial instruments at amortized cost	-	-
23.	Other assets from operating activities	10	(6)
24.	Deposits from financial institutions	(76)	68
25.	Transaction accounts of other clients	(265)	549
26.	Savings deposits of other clients	47	-
27.	Time deposits of other clients	247	(140)
28.	Derivative financial liabilities and other traded liabilities	9	(1)
29.	Other liabilities	17	14
30.	Interest received	219	114
31.	Dividend received	-	-
32.	Interest paid	(55)	(14)
33.	(Income tax paid)	(10)	(8)
34.	**Net inflow/(outflow) of cash from operating activities (from 1. to 33.)**	**(154)**	**570**
	Investing activities		
35.	Cash receipts from/(payments to acquire) tangible and intangible assets	(24)	(25)
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	(319)	(10)
38.	Dividends received	6	7
39.	Other receipts/(payments) from investing activities	15	22
40.	**Net cash flow from investing activities (from 35. to 39.)**	**(322)**	**(6)**
	Financing activities		
41.	Net increase/(decrease) in loans received from financing activities	42	41
42.	Net increase/(decrease) of debt securities issued	238	133
43.	Net increase/(decrease) of Tier 2 capital instruments	40	(49)
44.	Increase of share capital	-	-
45.	(Dividends paid)	(153)	(16)
46.	Other receipts/(payments) from financing activities	4	(4)
47.	**Net cash flow from financing activities (from 41. to 46.)**	**171**	**105**
48.	**Net increase/(decrease) in cash and cash equivalents (34. + 40. + 47.)**	**(305)**	**669**
49.	**Cash and cash equivalents at the beginning of the year**	**2,031**	**1,357**
50.	Effect of foreign exchange differences on cash and cash equivalents	(1)	5
51.	**Cash and cash equivalents at the end of the year (48. + 49. + 50.)**	**1,725**	**2,031**

(all amounts are shown in EUR millions)

Statement of cash flows – indirect method - unaudited		Bank 2023	Bank 2022
	Operating activities under indirect method		
9.	Profit/(loss) before tax	**118**	**44**
	Adjustments:		
10.	Impairment losses	(4)	16
11.	Depreciation and amortization	17	17
12.	Unrealised (gains)/losses on securities at fair value through profit or loss	(9)	3
13.	(Gains)/losses from sale of tangible assets	(5)	-
14.	Other non cash items	(170)	(104)
	Changes in assets and liabilities due to operating activities		
15.	Deposits with the Croatian National Bank	-	248
16.	Deposits with banking institutions and loans to financial institutions	(20)	(41)
17.	Loans and advances to other clients	(246)	(353)
18.	Securities and other financial instruments at fair value through other comprehensive income	-	-
19.	Securities and other financial instruments held for trading	(4)	44
20.	Securities and other financial instruments at fair value through profit or loss which are not actively traded	8	(22)
21.	Securities and other financial instruments mandatorily at FVTPL	47	7
22.	Securities and other financial instruments at amortized cost	-	-
23.	Other assets from operating activities	4	(7)
24.	Deposits from financial institutions	(76)	34
25.	Transaction accounts of other clients	(403)	554
26.	Savings deposits of other clients	16	-
27.	Time deposits of other clients	422	105
28.	Derivative financial liabilities and other traded liabilities	9	(1)
29.	Other liabilities	18	20
30.	Interest received	220	114
31.	Dividend received	-	-
32.	Interest paid	(53)	(12)
33.	(Income tax paid)	(10)	(7)
34.	**Net inflow/(outflow) of cash from operating activities (from 1. to 33.)**	**(121)**	**660**
	Investing activities		
35.	Cash receipts from/(payments to acquire) tangible and intangible assets	(15)	(18)
36.	Cash receipts from the disposal of/(payments for the investment in) subsidiaries, associates and joint ventures	-	(10)
37.	Cash receipts from sales of/(cash payments to acquire) securities and other investment securities	(308)	(67)
38.	Dividends received	6	7
39.	Other receipts/(payments) from investing activities	3	23
40.	**Net cash flow from investing activities (from 35. to 39.)**	**(314)**	**(65)**
	Financing activities		
41.	Net increase/(decrease) in loans received from financing activities	13	14
42.	Net increase/(decrease) of debt securities issued	238	133
43.	Net increase/(decrease) of Tier 2 capital instruments	40	(49)
44.	Increase of share capital	-	-
45.	(Dividends paid)	(153)	(16)
46.	Other receipts/(payments) from financing activities	(8)	(7)
47.	**Net cash flow from financing activities (from 41. to 46.)**	**130**	**74**
48.	**Net increase/(decrease) in cash and cash equivalents (34. + 40. + 47.)**	**(305)**	**669**
49.	**Cash and cash equivalents at the beginning of the year**	**2,031**	**1,357**
50.	Effect of foreign exchange differences on cash and cash equivalents	(1)	5
51.	**Cash and cash equivalents at the end of the year (48. + 49. + 50.)**	**1,725**	**2,031**

(all amounts are shown in EUR millions)

Statement of changes in equity

	Group 2023	Share capital	Share premium	Equity instruments issued other than share capital	Other items of equity	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]**	**481**	**2**	**39**	**-**	**(14)**	**156**	**-**	**24**		**45**				**733**
2.	Correction of errors														
3.	Changes of accounting policies														
4.	**Opening balance [current period] (1 + 2 + 3)**	**481**	**2**	**39**	**-**	**(14)**	**156**	**-**	**24**	**-**	**45**	**-**	**-**	**-**	**733**
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	-	-	-	-	-	(153)	-	-	-	-	-	-	-	(153)
12.	Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13.	Sale or cancelation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.	Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15.	Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16.	Transfer between equity components	-	-	-	-	-	41	-	-	-	(45)	-	-	-	(4)
17.	Equity increase or (-) decrease resulting from business combination	-	-	-	-	-	(3)	-	-	-	-	-	-	-	(3)
18.	Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19.	Other increase or (–) decrease of equity	-	-	1	-	-	-	-	(1)	-	-	-	-	-	-
20.	Total comprehensive income for the year	-	-	-	-	8	-	-	-	-	105	-	-	-	113
21.	**Closing balance [current period] (from 4 to 20)**	**481**	**2**	**40**	**-**	**(6)**	**41**	**-**	**23**	**-**	**105**	**-**	**-**	**-**	**686**

(all amounts are shown in EUR millions)

Statement of changes in equity - unaudited

													Non-controlling interest		
	Bank 2023	**Share capital**	**Share premium**	**Equity instruments issued other than share capital**	**Other equity instruments**	**Accumula-ted other comprehe nsive income**	**Retained earnings**	**Revaluat ion 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]**	**481**	**2**	**39**	**-**	**(14)**	**123**	**-**	**23**	**-**	**37**	**-**	**-**	**-**	**691**
2.	Correction of errors														
3.	Changes of accounting policies														
4.	**Opening balance [current period] (1 + 2 + 3)**	**481**	**2**	**39**	**-**	**(14)**	**123**	**-**	**23**	**-**	**37**	**-**	**-**	**-**	**691**
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	-	-	-	-	-	(153)	-	-	-	-	-	-	-	(153)
12.	Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13.	Sale or cancelation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.	Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15.	Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16.	Transfer between equity components	-	-	-	-	-	34	-	-	-	(37)	-	-	-	(3)
17.	Equity increase or (-) decrease resulting from business combination	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.	Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19.	Other increase or (–) decrease of equity	-	-	**1**	**-**	-	-	-	(1)	-	-	-	-	-	-
20.	Total comprehensive income for the year	-	-	-	-	8	-	-	-	-	- 96	-	-	-	104
21.	**Closing balance [current period] (from 4 to 20)**	**481**	**2**	**40**	**-**	**(6)**	**4**	**-**	**22**	**-**	**96**	**-**	**-**	**-**	**639**

(all amounts are shown in EUR millions)

Statement of changes in equity - unaudited

													Non-controlling interest		
	Group 2022	**Share capital**	**Share premium**	**Equity instruments issued other than share capital**	**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**	**Accumulated other comprehensive income**	**Other items**	**Total**
1.	**Opening balance [before restatement]**	**481**	**2**	**-**	**39**	**4**	**109**	**-**	**24**	**-**	**67**	**-**	**-**	**-**	**726**
2.	Correction of errors	-	-	-	-	-	-	-	-		-	-	-	-	-
3.	Changes of accounting policies	-	-	-	-	-	-	-	-		-	-	-	-	-
4.	**Opening balance [current period] (1 + 2 + 3)**	**481**	**2**	**-**	**39**	**4**	**109**	**-**	**24**	**-**	**67**	**-**	**-**	**-**	**726**
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	-	-	-	-	-	(16)	-	-	-	-	-	-	-	(16)
12.	Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13.	Sale or cancelation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.	Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15.	Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16.	Transfer between equity components	-	-	-	-	-	63	-	-	-	(67)	-	-	-	(4)
17.	Equity increase or (-) decrease resulting from business combination	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.	Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19.	Other increase or (–) decrease of equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.	Total comprehensive income for the year	-	-	-	-	(18)	-	-	-	-	45	-	-	-	27
21.	**Closing balance [current period] (from 4 to 20)**	**481**	**2**	**-**	**39**	**(14)**	**156**		**24**		**45**				**733**

Statement of changes in equity - unaudited

													Non-controlling interest		
	Bank 2022 **(All amounts in HRK million)**	**Share capital**	**Share premium**	**Equity instruments issued other than share capital**	**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**	**Accumulated other comprehensive income**	**Other items**	**Total**
1.	**Opening balance [before restatement]**	**481**	**2**	**-**	**39**	**4**	**74**	**-**	**23**	**-**	**60**	**-**	**-**	**-**	**683**
2.	Correction of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.	Changes of accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.	**Opening balance [current period] (1 + 2 + 3)**	**481**	**2**	**-**	**39**	**4**	**74**	**-**	**23**	**-**	**60**	**-**	**-**	**-**	**683**
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	-	-	-	-	-	(16)	-	-	-	-	-	-	-	(16)
12.	Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13.	Sale or cancelation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.	Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15.	Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16.	Transfer between equity components	-	-	-	-	-	56	-	-	-	(60)	-	-	-	(4)
17.	Equity increase or (-) decrease resulting from business combination	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.	Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19.	Other increase or (–) decrease of equity	-	-	-	-	-	9	-	-	-	-	-	-	-	9
20.	Total comprehensive income for the year	-	-	-	-	(18)	-	-	-	-	37	-	-	-	19
21.	**Closing balance [current period] (from 4 to 20)**	**481**	**2**	**-**	**39**	**(14)**	**123**	**-**	**23**	**-**	**37**	**-**	**-**	**-**	**691**

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 „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.